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MANUAL

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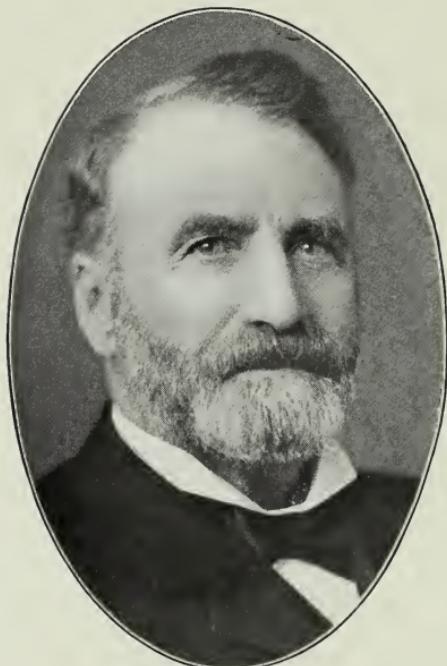


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**W. D. FORBES, DES MOINES, IOWA.**

W. D. Forbes has been president of the National Organization of Mutual Insurance Companies from its beginning and has been prominent in Mutual Insurance work for thirty-five years. He is a man of great energy and ability as an organizer and administrator. His devotion to the cause of Mutual Insurance has never wavered; and, although still in the flower of a vigorous manhood, he has lived to see his fondest hopes realized and even far exceeded by the measure of success achieved.

# MUTUAL INSURANCE MANUAL

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*A HAND BOOK*

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*National association of mutual co-  
operative fire insurance companies*

**C. F. MINGENBACK**, Chairman of Committee.

**S. G. MEAD**, Compiler.

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1906  
McPHERSON, KANSAS.

## **MANUAL COMMITTEE**

---

**C. F. MINGENBACK, Chairman**

**S. G. MEAD, Compiler**

**Authorized by the National Association of  
Mutual Co-operative Fire Insurance Com-  
panies to issue this Hand Book of Mutual  
Insurance.**

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## P R E F A C E.

The preface, the "prefatio," the "first sayings," is probably so called because it is never written until the rest of the book is finished. And so in accordance with the moss covered custom we put our last words at the beginning.

And first of all, let us acknowledge our obligations to the enthusiastic Mutual men who have so kindly aided us in our labors, and without whose assistance and measure of success would have been impossible.

"First among his equals" is W. D. Forbes of Omaha, Nebraska, the efficient president of the National Organization. Peculiarly fitted by experience and by position, he has furnished us with much valuable material, has criticized and corrected our work, and in many other ways has rendered valuable service.

The legal adviser of the National Organization, Hon. E. M. Coffin of Lincoln, Nebraska, the foremost Mutual insurance lawyer of the country, has kindly taken time from his own pressing affairs to furnish us with legal information. The brief printed in the account of the State of Nebraska is his, and while of special value to that state, enunciates principles and quotes authorities which will be applicable everywhere. For this and many other favors the Committee are under great obligations.

In the "New Northwest" in far off Washington, the Committee found a statistician of pre-eminent ability, F. J. Martin of Seattle. His table of comparative statistics is the most important in this line ever published and adds greatly to the value of the Manual.

Coming a little nearer home it is with sadness that we refer to the brilliant and scholarly Chas. Grissen of McMinnville, Oregon. Uniting in himself the polish of the scholar, the energy of the business man, and the urbanity of the gentleman, his future seemed spanned by a bow of promise. But the wisdom of Providence planned differently and he passed away March 28, 1906.

To M. G. L. Roberts of Chattanooga, Tennessee, the Committee also return their thanks for his earnest efforts to obtain statistics of many states for which they were unable to get any information whatever.

W. B. Linch, for many years secretary of the National Organization, has rendered the Committee aid which is appreciated. He was never so busy that he could not stop to give us needed information at once.

J. J. Furlong of Austin, Minnesota, has hunted up much very useful matter. If there is a good thing in Minnesota Mr. Furlong knows just where it is and just how to get it. The Manual is the better for his kind assistance.

C. S. Collins of Little Rock, Arkansas, has written an excellent account of the conditions in his state. The Committee and the readers will appreciate this.

James A. Swallow of Shenandoah, Iowa, has a claim for thanks for valuable contributions along general and special lines. His matter is thoroughly practical.

John Weyer of Cincinnati, Ohio, sent us an excellent account of the Retail Drug Mutual Insurance business. It will be appreciated by the readers of the Manual.

The Committee are under obligations to Marshall Cushing of New York City for a copy of the report of the transactions of the National Association of Manufacturers, a pamphlet of very great practical usefulness.

O. W. Tefft of Greenwich, New York, sent us reports of his company and other valuable information.

J. Y. M. Swigart of Lincoln, Nebraska, has ever been ready with counsel and advice and in many ways has materially aided the progress of the work.

J. T. McGavock of Waterford, Virginia, has given us an account of conditions in his vicinity. His experience very nearly duplicates that of Mr. Roberts, but it will not be his fault if there is not a change for the better very soon.

From J. Somers Smith, Jr., the secretary of the oldest and strongest Mutual in the United States, "The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire," the Committee have received several historical documents and also much other information which is intensely interesting. For this they acknowledge their indebtedness to Mr. Smith.

J. C. McManima of Springfield, Missouri, has made the Committee his debtor by kind notices, reviews of manuscript, etc. A. Shiel of Burlington Junction, Jesse D. Mohler of Warrensburg and E. S. Osgood of Mendon, in the same state, also deserve credit.

Mrs. M. A. Leekly of Perry, Oklahoma, has kept the Committee informed as to the progress of matters in that section of country. She is transforming matters, and under her leadership, Mutual Insurance is coming to the front in Oklahoma.

James Miller of Elizabethville, Pennsylvania, has laid the Committee under obligations for many valuable hints drawn from his experience of nearly forty years.

To J. L. Fowle of Ionia, and J. E. Taylor of Belding, Michigan, the Committee are indebted for an account of conditions in Michigan, and also for hints which they found useful in the body of the work.

From Illinois, A. T. Strange of Walshville and C. M. McMillan of West Point have sent excellent accounts of their state.

In Kansas the Committee have found such hosts of friends that they cannot find space to mention. They can only mention R. M. Scott of Pittsburg, the writer of the able article on the State Fire Marshal.

From New England the Committee have received many favors. Hon. Roger F. Upham of Worcester has re-written his magnificent article on Mutual Underwriting in Massachusetts; Hon. Edward Atkinson, now gone to a good man's reward, has sent the Committee much matter of very great value; Col. R. F. Barrett of Concord, Hon. L. R. Welsh and Hon. E. L. Saunders of Worcester, Massachusetts, and Fred E. Smith of Montpelier, Vermont, have given the Committee full information regarding the other states.

Thanks are due also to R. A. Hitchcock for generous notices of the Manual in his Mutual Insurance Journal.

Also the Committee wish to thank M. S. Matthews of St. Paul, Minnesota, for valuable papers and letters. O. J. Johnson of Glenwood, Minnesota, has given his experience, a valuable favor on practical lines.

To R. J. Young of Oelwein, Iowa, and to F. D. Babcock of Ida Grove, Iowa, the Committee are indebted for hints, circulars and good will generally.

J. H. Tinvoorde of Minneapolis, Minnesota, has put the Committee under obligations in many ways.

S. R. VanMeter of Marietta, Ohio, is another Mutual fighter to whom the Committee are under obligations.

From Indiana, R. A. Kirkman and Dr. J. Saunders of Anderson have sent information which cost them no little trouble, and which will be interesting to all Mutual men. They will accept the thanks of the Committee.

Scott Rutledge of Des Moines, Iowa, has aided the Committee with information and support for which the Committee are grateful.

The Zimmers, J. F. and P. F., of Lincoln, Nebraska, have sent practical information on hail matters, which the Committee consider exceedingly valuable. They will accept the thanks of the Committee.

The Commissioners of the several states have invariably treated the Committee with courtesy. When they had the information desired it was furnished. When they had not, an explanation was given. The readers will find frequent quotations in the body of the work. Especial mention is due to Dearth, Host, Wilkinson, and O'Brien.

If the Committee, in the rush of getting out these last few pages have omitted any one, they hope that this paragraph will be accepted as an apology for an unintentional error of omission.

In finishing the work the Committee wish to reiterate one statement: So long as Mutual insurance is furnished at cost, absolute safety is guaranteed, economy is practiced and bad risks eliminated, there should be no attempt at enforcing uniformity of practice. Each Company should be left to adopt its details to its environments. State supervision should demand safety and honesty, but go no further.

The Manual will serve as a starting point for discussion. It occupies the position of a motion introduced for the purpose of getting something before the house.

The compilers have learned much themselves, and it is to be hoped that the work of correspondence, comparison and fraternal consultation will go on for all time. The advance of co-operation is the progress of humanity. And one service of which the Committee think they may justly feel proud is the uniting of so many active, intelligent, patriotic co-operators in the enterprise. In nearly every state there are members who have aided and who are ready to help in anything which will further the cause.

All this information, as well as a valuable collection of correspondence, reports, pamphlets, books, etc. is the property of National Association and available for future use.

The Committee had set their mark high, but after two years of hard work, they think they have learned something about the difficulties of the task. While there was much that was inspiring, there was also much that discouraged. The incessant research, the thousands of letters sent out without even an echo of a response, the drudgery of detail during two long years, sometimes induced despondency, but after all it was a labor of love. The compensation and the difficulties both fell out of sight, and having embarked in a good cause the Committee took new courage and persevered and here the convention has the result.

And finally, to each and all, officers and members of the National Association, of State Associations and of local Companies, who have been so kind to us, we offer our sincere thanks and we hope that the many pleasant acquaintances which we have formed in the course of our work may continue during future years.

Respectfully,

C. F. MINGENBACK, Chairman.

S. G. MEAD, Compiler.

**SAN FRANCISCO.**

The awful catastrophe, which has called forth the sympathy of the civilized world, has a lesson for Insurance Companies and for policy holders. This Manual nowhere includes all joint stock companies in a sweeping condemnation so far as their integrity of management is concerned, and in this case it is a pleasure to say that out of the wreck and the crush many well managed companies have come unscathed. They have lost, but not enough to injure their business nor their credit. For them there is a place in the world which they may fill and fill honorably.

But there are others which seem to have acted more as plungers than as sensible business men. Urged on by greed, dazzled by immense premium incomes, they have disregarded the warning voices of conservative men, they have gambled in conflagration risks, they have wagered more than their holdings, and they have lost, and the innocent share holder and the innocent public, both alike suffer.

Here, then, is presented a vivid object lesson as to the difference between Mutual and Line company insurance. The line companies with their reserve of sixty million lost three hundred millions, and many are wiped off from the face of the earth, the little Mutuals, with their reserve of twenty-five to fifty thousand each are still doing business at the old stand, paying dollar for dollar, and unlike some of the stock companies which advocate an immediate advance of twenty-five per cent to reimburse for losses, the Mutuals will continue to furnish safe indemnity at the old rate.

## CHAPTER I.

### EXPLANATORY AND HISTORICAL.

The idea of this Manual originated with a few earnest Mutual Insurance men, who believed that the system was capable of better results than were being produced. They had studied the merits of co-operation and were filled with faith in the possibilities yet in the future. There was an active and vigorous National Organization and in every state where there were even a few Mutuals, there was some sort of a State Association. The membership of these, however, was limited and their proceedings, valuable and instructive as they might be, were only published in pamphlet form and were soon scattered and lost. There were no statistics. Not a single volume could be discovered which treated Mutual Insurance as a science or even as a system.

Believing that this state of affairs might be bettered, the National Association of Co-operative Mutual Fire Insurance Companies of the United States, at their meeting at Chattanooga, May 5 to 9, 1903, appointed a committee to prepare a Manual for the use of the Mutual Fire and Storm Insurance Companies of the United States. The following resolution was passed:

“We earnestly recommend that in the near future, in some manner, this association publish a

Manual on Mutual Insurance and that a proper committee be appointed to consider and report to the Executive Committee, and with such Executive Committee to act, if deemed advisable."

At the same meeting the following resolution regarding a statistician was passed, after a discussion of the subject of statistics:

"Resolved, That we recommend to this association the appointment of a statistician, whose duty it shall be to furnish at each annual meeting of this association such statistics as complete as it is possible to compile them."

In pursuance of these resolutions, C. F. Mingenback of McPherson, Kansas, was appointed Chairman of the Committee on Manual and F. J. Martin of Seattle, Washington, Chairman of the Committee of Statistics, each being given power to choose his own assistants.

The Manual Committee was afterward enlarged by the addition of J. C. McManima of Springfield, Missouri; F. J. Martin of Seattle, Washington; and the compiler, S. G. Mead, of McPherson, Kansas. Owing to the unexpected pressure of personal business affairs, Mr. McManima, much to his regret, was unable to co-operate with the other members.

The Committee on Manual at once entered upon their task. As the mariner, before he can decide upon his course, must know where he is, and so takes an observation, the Committee believed it best to begin by ascertaining the actual and present status of Mutual Insurance, and commenced investigation in that line. State reports were procured, leading

Mutual Insurance men were written to, lists of questions sent out and every method suggested was used to forward the work. In almost every case the Committee received encouraging responses and the requested information was always cheerfully furnished when it was to be had. New sources of information were suggested and the aid thus rendered proved most valuable. There were no rebuffs, but now and then a company seemed to think best to watch the progress of the work rather than to commit itself by action, assuming an attitude which has aptly been compared to that of a cat inspecting a lighted fire-cracker.

It soon became apparent that the importance of Mutual Insurance had been underestimated, that both in numbers and in amount at risk the Mutuals were occupying places far more important than those usually assigned to them, and that, owing to the multiplicity of interests involved and the varying conditions, legal and other, under which the companies were working, more ground must be covered than was at first intended. Accordingly, at a meeting of the Executive Board at Omaha, not long after the appointment of the Manual Committee, the scope was materially widened and the list of subjects greatly enlarged.

Had the Committee published the work at that time, many important subjects would have been passed by without mention. They, therefore, took the responsibility of deferring publication and bent their energies to making further researches, to developing subjects of great importance and to the ac-

cumulation of matter unthought of when the Manual was first suggested as a hand book, and it is because further delay is undesirable, and not that they have exhausted the subject matter, that the Committee send the book to press at this time. In fact, the subject is inexhaustible. This book is but the first of a series, expanding and developing with the lapse of time till the Mutuals shall be provided with a literature of their own, full, complete and worthy of their cause.

The system of co-operation is firmly intrenched in this country. The laws, however, are not always in its favor. Some Mutuals are obliged to adopt methods which they would not use were they not under compulsion. Other Mutuals still have grown up in isolation, developing their methods from their own experience, others again have been obliged to fit their practice to their environments. But in all these, the aim and object has been to furnish Insurance to the members at cost, and this they have accomplished in the face of opposition and in spite of difficulties.

What the Committee hope they have accomplished is the presentation of a fair representation of Mutual Insurance as it is, as a basis for future discussion and future action, together with some hints to officers and members as to how to accomplish the best results under present circumstances.

But the committee do not offer or propose any plan of uniformity. This is not possible even were it desirable. So long as the grand principle of co-operation is kept steadily in view, the disposition of technicalities is of very little moment. But if the

Manual shall be of service in the way of stimulating thought and action, if it shall point out how individual companies or district and state associations may better the work within their lines or how they may improve external conditions by securing better legislation, doing away with prejudice and misconception, then its work will not have been in vain.

No one can know better than the Committee the faults of the work. It is the pioneer in the field and is offered as a starting point. The more earnest the discussion of its statements and the more severe and thorough the criticism of its positions, the better for the general cause of co-operation.

And to the Mutual Insurance public the Committee respectfully offer this book hoping that it will be of service along the lines indicated, and that it may aid in the success of one form of that co-operation which seems to be our best defense against the greed and the unscrupulous methods of some of the immense business combinations of the day.

## CHAPTER II.

### INTRODUCTORY.

#### WHAT THE MUTUALS MUST DO.

It is incumbent on those who advocate any theory or plan of action to prove that there is a reason for its existence. This proof must be positive and complete. It will not be sufficient to show its harmless nature, for while it may be free from evil, it may also be useless, a mere cumberer of the ground. Nor is it enough to show that it produces some good results. The proof must go far enough to establish the fact that the theory or plan is capable of producing more and better results in its line than any other offered to the public. Nothing short of this will be acceptable. To state it in different language: the **plan** must either be the best plan, or be set aside for the **one** that is. This is one of the fundamental laws of nature and is the keynote of human progress, for the history of that progress is but the account of the setting aside of the crude and imperfect for the more finished and complete, after the new has proven its superiority.

#### THEY ACCEPT THE CHALLENGE.

To this test the friends of Mutualism gladly **accede**. And if they cannot prove by positive and **irrefutable** evidence that their claims are correct and

their theories and methods are the best, they will abandon the field. The advocates of Mutual or Co-operative Insurance are well aware that in accepting this challenge they are facing the opposition of the combined power of capital and of the traditions of a distorted political economy,—distorted for the same reason that theology has been distorted to prove the doctrine of the divine right of kings, or to justify the slave owner in holding human beings in bondage, to ease the consciences of those whose wealth was acquired by the exploitation of mankind. At this point, let it be said that the mutuals and co-operatives wage no war on wealth or capital. Honestly earned and legitimately used, wealth is a good thing, both for its possessor and for the community. No fortune can be too large, and no profits too great, for the public good, if untainted with fraud or oppression. But, when combinations form to suppress all competition, when corruption enters the halls of legislation to purchase the enactment of measures depriving the people of the right to transact their own business, and to make it easy for the large establishments to crush out the small ones, then wealth is a curse to the community and to the nation.

The mutuals of the country have been the victims of attack and misrepresentation for many years. This has gone on until the mere continuous repetition of the statements has induced many to believe them, possibly the promulgators themselves, for it is said that when a man has repeated a lie a sufficient number of times, he ends in believing it. The effect of this continuous and persistent misrepresentation

has been to bring the mutuals under suspicion and to popularize the idea that a large capital, subscribed and paid up, is the one thing, and the only thing which makes an insurance company safe, and that all others are to be classed as wild cats or visionaries to be avoided by men of good common sense and ordinary business judgment.

#### **UNFAIR ACTION.**

Capital is quick in forming combinations, bodies of individuals move but slowly. Hence, while all insurance was originally mutual in form and spirit, and its promoters looked only to the general interest, without thought of personal aggrandizement, companies were slow to combine for mutual protection and mutual help. Each occupied its own limited field—limited, for there were but few to be insured—and each pursued the even tenor of its way with very little desire to extend its borders. But capital saw its opportunity and organized joint stock companies for the purpose of selling indemnity. In this there was nothing wrong, nor do the advocates of the mutual system object to it. Fair competition is never injurious. But not all was fair. Combination against competition began to develop among the unscrupulous of the old line companies. Legislatures were approached, and laws, ostensibly guarding the rights of the public but really creating monopolies for the joint stock companies, were smuggled through in almost every state. It is doubtful whether most of the legislators fully realized the intent of the laws for which they voted. But in many states,

when those who desired to do business on the mutual principle made efforts to organize, they found themselves hampered by numerous restrictions. It has been remarked that in several states the laws passed at an early date before any insurance organizations were thought of, looked as if they were designed in advance to shut out the mutuals entirely. All this put the mutuals at a disadvantage, but they are now making a steady and successful fight against this order of things, and are occupying the ground they never should have lost. That the joint stock companies resorted to such tactics, is itself a strong proof that they felt their own inability to cope with the mutuals in a fair contest.

**THE MUTUAL SYSTEM TRUE TO HUMAN NATURE.**

The mutual or fraternal business organization, is more in consonance with true human nature than any other. The first impulse of men is to work together. That the selfish will try to take advantage of the others is true, but it is also true that, notwithstanding the sneers of the selfish, this fraternal feeling is well nigh universal, while greed and selfishness are confined to the very few. More than a century ago, a cynical philosopher, after a view of things as they were, announced, as the results of his observations, the doctrine that every man is "a wolf to his fellowmen." It was contradicted at once, though it describes some business methods of that day with considerable accuracy, and seems to state correctly the ethics of some modern corporations. More recently, an article justifying their practices was at

once condemned as "The ethics of the jungle." Mutualism opposes all this pessimism in toto. It believes the doctrine that men were put into this world, not to hurt, but to help each other. It believes that when every man will help his fellow man, then every man will be prosperous himself. It repudiates and scorns the fatalistic theory recently advocated in a book circulated at the expense of one of the great trusts of the United States, that modern business methods are the result of an inevitable and necessary evolution, and cannot be avoided or evaded. It believes in the Sermon on the Mount, and in the Golden Rule, as setting forth the wisest political economy, and the best business methods. It believes in helping to bear one another's burdens, in uniting to help each other and at the same time in leaving an equal chance for those not in the organization. This is its first argument. It is never directly attacked. People say, in a patronizing way, that it is idealistic, visionary, but not practical, very pretty, might do in the millennium, etc. To all this, mutualism makes answer that if the theoretically true cannot be made to work out in real practice, if co-operation is true, but cannot be made available in actual life, then this world is a stupendous failure, and the Creator has missed his aim and the ideal inhabitant of this world is not man created in the image of his Maker, but the creature of the forest best fitted for destroying his fellows.

**CO-OPERATION SUCCESSFUL.**

But these positions are not true. There never has been a time when co-operation was not a success. From the dawn of history, or as the lawyers say "so long that the memory of man runneth not to the contrary," have human beings joined hands with their fellows for the common weal. Nor is it true, as is sometimes sneeringly remarked, that the cases of success are only to be found among those affairs of life which require no business ability for their management. Co-operation has succeeded everywhere, it has managed the farm and the store, the shop and the factory, its realm covers the land and the sea. There is no business too complex, no task too difficult, for it to undertake. Nay, it has demonstrated its ability to deal successfully with the greatest problems of the world. The United States of America is today the leading power of the world, and what is it but a grand example of successful co-operation by the people in self government? And so thoroughly is it imbued with this principle, that it is today reaching out and persuading other nations to follow its own peaceful example, to substitute arbitration for war, and to work in harmony for the accomplishment of the civilization and enlightenment of the whole human race, including those very peoples who less than a century ago were considered to have been brought into this world by the Creator only to be doomed to hopeless and helpless slavery. That is, the only really successful nation of today, is the only purely co-operative nation. No well informed per-

son will today attack those positions. They are too well established and the facts are too widely known.

Turning now to the special phase in which the Manual is interested, to Mutual Insurance, it will be found that the experience of centuries is in its favor, all the early insurance companies of the old world were Mutuals and every one of them did a useful and beneficial work. In the United States, the oldest and strongest companies are Mutuals, and when a great conflagration sweeps over the congested districts of a Boston or a Baltimore, it is the joint stock companies and not the Mutuals which show the heaviest per cent of failures. This subject, however, is treated more fully in the chapter "Comparisons" to which the reader is referred.

#### **EVILS ELIMINATED.**

Aside from their undoubted safety, there are other advantages in the Mutuals which should not be passed by without mention. Mutual Insurance eliminates the so-styled rate wars. These are generally originated by some agent who gives a rebate to secure a large risk, others retaliate, and finally rates are forced down below the cost of indemnity. The deficiency must be made up and this burden generally falls on persons of small means or on those residing in other localities. In either case, gross injustice results.

Such occurrences are impossible under the Mutual System, for the only competition among them is that which never aims to harm another. That competition which injures itself to injure another still

more, is iniquitous and the Mutual System wipes it out. It also wipes out the attempt so often made to gain undue advantage, and in so doing, does away with all temptation to tamper with legislation with the intent of harming a competitor.

#### NO IMMENSE ACCUMULATIONS.

The Mutual System also dispenses with the immense accumulations of money by Insurance Companies. Such aggregations of capital in the hands of a few, have always been looked upon as somewhat of a menace to the community. Comparing the modest reserves of the Mutuals with these enormous accumulations, even the largest of them shrinks into insignificance. Remembering that the vast majority of the Mutuals carry scarcely any reserve above the unearned premiums and assessments on hand, the contrast becomes still greater. Much of the joint stock advertising about their surplus has no solid foundation. They use the expression "surplus as regards policy holders." It is true that in case of loss, all the assets of a company are liable, but what assurance has the policy holder that all the surplus will be there when he has a loss? Whose is that surplus? Not his, nor has he or his fellow policy holders any control of it whatever. It belongs to the stock holders. Should the company choose to distribute that portion of it above the legal requirements among the stock holders, what is to prevent? So long as they comply with the requirements of the statutes and carry the amount provided for, they may dispose of the rest as they please. And it is no fancy

sketch which pictures an organized band of wreckers acquiring control of such a company and converting the surplus to their own use. Not long ago three thousand dollars was offered for a single share of one of the large life insurance companies of New York city. Its par value is one hundred dollars and its investment value is far below the offer. While the surplus of a joint stock company belongs to the stock holders, the surplus of the Mutuals belongs to the policy holders. The courts and the official investigations of the eastern states have shown a state of affairs endorsing every position taken in this chapter. The columns of the newspapers have been crowded with exposures of official misconduct, and the end is not yet.

Again, the small reserves of the Mutuals can easily find investment in first class mortgage loans or similar gilt-edged securities, close at home. These are beyond the reach of the fluctuations of the market, and are untouched by panics. They are safe in all kinds of financial weather. But the investment of the millions of the joint stock companies is a serious matter. Railroad stocks and bonds are used to an enormous extent. Other corporation securities, state and local bonds, are bought up; in fact, everything which it is hoped will pay, is in demand. Insurance companies publish lists of their investments, but what does the average policy holder know about it? Suppose a panic occurs. The gilt-edged securities of the Mutuals will hold their own, but what about the stocks and bonds of the others. There will be as there was before in the periods of depression,

a flow of eloquence about shrinkage of value, etc. But suppose the Baltimore fire had occurred in the midst of the last panic, where would the prices of these joint stock securities have gone to? It was well for the country that this conflagration took place when the treasuries of the insurance companies were flush with money and stocks were high. It is no answer to this to say that such a condition of things is not likely to occur. Panics do occur in spite of all human efforts, and they occur when least expected. The fire risk in the large cities is such that a conflagration may occur any day in any one of them, wiping out more property than has ever heretofore been consumed at once. To provide absolute safety, not only the probable must be guarded against, but even the possible, no matter how improbable.

**MUTUALS NEVER MANIPULATE THE MARKET.**

What security have the stock holders that these vast funds will not be used to manipulate the stock market? There are charges that this has been done and is being done, and so well founded are these charges, that State Superintendents of Insurance have deemed them worthy of notice and investigation. And even now the courts are busy with cases of this nature. Could any one use the small reserves of the Mutuals in that manner? Is it supposable that Mutual officials could ever promote any financial scheme with the expectation of unloading their stock upon the companies? The very question is absurd. But suppose the presidents of half a dozen of the larger insurance companies united to dabble

in stocks. They can juggle with the market as they please. But under the Mutual system, these immense reserves would be left in the pockets of the policy holders and only enough carried to insure a working balance in the case of heavy losses.

Where are the interests of the stockholder of these enormous insurance companies? They are with the railroads and other corporations whose stocks they own. Where are the interests of the Mutuals? They are with the people who are their policy holders. The Mutuals only ask a fair field and no favor. They welcome state supervision which insists upon safe management and shuts out all that which is doubtful. They have no other favors to ask.

There are not a few who think that co-operation is to offer the solution of the trust problem. While this is not true universally, yet it is a long step in the right direction. Those railroads whose stocks are owned along the line, those banks whose shares are widely distributed, in a word, all those corporations which are largely owned by their customers, make little or no trouble. But in the sphere occupied by the Mutuals, they have fully solved the corporation problem and, at no distant day, will occupy the entire field, to the exclusion of every other form of insurance.

#### **A MUTUAL TRUST IS IMPOSSIBLE.**

There is no possibility of combination to fix rates or of unhealthy competition among Mutuals. Each one does business as cheaply as it can and charges its members only actual cost. Nor does it

really make any difference what their rates are. Two Mutuals in the same vicinity will naturally do business for just about the same cost. All premiums collected in excess of that cost will be returned, be they large or small.

The late developments should be a warning against the accumulation of immense funds. The following from the Underwriters' Review, of May 25, 1905, is interesting:

“An item, the correctness of which has not, we believe, been disputed, has lately gone the rounds of the daily press, which states that eleven prominent business men of New York City are directors in 553 corporations, such as banks, trust companies, railway companies, and the like, an average of about fifty directorships to one man. Referring to this the United States Investor calls timely attention to the obvious fact that no man can discharge properly the obligations which such a multiplicity of directorships involves. Chauncey M. Depew, an Equitable Life director, and James H. Hyde, the Equitable vice president, hold respectively seventy-four and forty-seven places on sundry boards of directors. These and other cases of directors who do not direct, illustrate the thoroughly bad phase of loading down a corporation with names of ‘influential’ men who, perforce, while nominally responsible, let two or three men in immediate control run the corporation to suit themselves. The public, which is caught by big names, may be swindled right and left, while the directors can only weakly ‘plead the baby act.’”

Since the extract above quoted was published, some of the directors have been forced out, but it is doubtful if those who took their places are much better. But the paragraph shows how intimate is the connection between the great corporations, and how "two or three men in immediate control" manage almost a billion dollars, belonging to other people.

As was said before, such a state of affairs is absolutely impossible among Mutuals.

"The total assets of the old line fire and life insurance companies in the United States are in excess of \$2,500,000,000. The exact amount invested in railroad stocks and bonds is not easily ascertained. In those companies in which those investments are separately stated it runs over seventy per cent. But estimating it at sixty per cent, to be on the safe side, the railroad investments of these companies are at least \$1,500,000,000. Of this amount over one-third is owned within two miles of the New York post office.

"How much of the remaining forty percent is invested in other corporations, how much is loaned to them on collateral security, the published records do not show. But considering only the railroad holdings, the power of these directors is enormous. The eleven men named above could meet by themselves, arrange a program for all the rest and carry it out. They have the power to so manipulate the markets as to crush out all except those in their own combination and thus stifle competition to the end that they may charge what they please for what they offer to the public. How long the American people

wili endure this state of affairs, depends upon the vigor and patriotism of the friends of co-operation."

#### MAN A SOCIAL BEING.

There is in humanity, and ever has been, a social instinct. Man is classed as a gregarious animal. This desire for companionship is so strong and so general that the exceptional cases, the hermit and the recluse, at once suggest some mental disorder. Each family makes its own society in the ordinary every day affairs of life, nevertheless, this does not satisfy all the desires of man's nature. He is interested in his fellows, he reaches out and where occasion presents itself, he is ready to offer his services. This is but the natural manifestation of his social instincts. In isolated communities or where the population is sparse, it is seen in the "raising," when the neighbors unite to erect a dwelling, expecting that in the future they shall be aided in time of need. It appears in the "bees," where neighbors gather to help some other neighbor and have a good time while at their work.

Besides the social instinct just alluded to, there is another incentive, the desire for some advantage or relief from some material evil. This gives rise to larger organizations, the co-operative store, the factory, the insurance company and other business establishments. The material rather than the social element first presents itself to view in these, but the social element exists and must not be lost sight of. When the co-operators are scattered, as in the case of Mutual Insurance Companies, there is a liability

to forget that the man in the next township is as much our neighbor as the man whose home is just across the street. But ignoring the fact of the common humanity and common interests of the race, reduces co-operation to the level of the trust and the corporation and defeats the very end for which it exists.

But while the importance of the social side may not always be fully realized it is seldom entirely ignored. It is a fortunate circumstance that an organization which is co-operative in form but not in spirit suffers the fate of any other corpse. It becomes offensive and is taken away. A co-operative enterprise exists as a business and is to be conducted as a business, this is the material side. But were it not for the social side it would not exist at all. As said above, there are two elements, the absence of either one is fatal.

## CHAPTER III.

# CO-OPERATION.

### WHAT IS IT?

In the broad sense of the word, co-operation is the union of several persons to accomplish some result. This definition has been limited in general use to the union of persons for the purpose of producing or purchasing some products or some services at cost, and in this sense it will be used in this Manual.

### AS OLD AS HUMANITY.

Co-operation began with the birth of the human race, and it is the normal law of labor in the family today. In the community, though its sphere has been narrowed by illegitimate methods, it is gaining its former place. The enormous economic changes of the last two centuries, gave opportunities for combination of which avarice has eagerly taken advantage. Partnership and joint stock combinations were originally for the purpose of co-operating in producing results which were beyond the power of the individual, and, confined to this field, they were useful institutions. But when the monopolistic idea developed, then the evil side of these organizations began to show itself. The wealthy devoured the poor, the large establishment drove out the little one, and the unscrupulous and the grasping set the prices and

compelled the would-be honest to follow. In short, the era of the trusts was upon the people before they suspected it.

Meanwhile, the Mutual or co-operative institutions had been quietly pursuing their way, and as the corporations became more and more aggressive, the people again turned to them for relief. This was especially the case in the insurance field. The old co-operative companies grew stronger and new Mutuals sprang up everywhere.

#### **CO-OPERATION NOT A MERE SENTIMENT.**

Occasionally there was a misconception as to the true sphere of co-operation and then there was trouble and perhaps failure. The underlying principle of co-operation is equal and exact justice to all without regard to external conditions or circumstances, and any disregard of this principle does harm and may even work disaster. It is said that there is a moral as well as a business side to co-operation, that men work together not only for their own good but to benefit their fellow men. This is true, but the more exactly the rules of justice are observed, the more will be the benefits on the moral side.

Sympathy, sentiment and compassion have their place in the world. The man whose soul has no such emotions is not far from a demon, but efforts to substitute them for justice in business transactions will only result in evil.

On the other hand, co-operation cultivates all the finer feelings of humanity, it makes its adher-

ents sympathetic and charitable. They will be of more service to their fellowmen as individuals than would be possible in any other way.

To put it differently, co-operation teaches the highest form of benevolence, but it must be with one's own. It does not believe in being generous with what belongs to another. It does not believe in that form of benevolence which boasts of its gifts and raises the price of its products to compel the public to pay its subscriptions.

Co-operation harms no man who is engaged in any legitimate business. It drives no one out of work, it employes as many people as any other organization or method of conducting business, and it pays as good wages. While it occupies its own field, it leaves an equal chance to every one else. It is for the benefit of all, but for the injury of none.

#### **IT HAS RAISED THE STANDARD OF COMFORT.**

It has had an important influence in the world in raising the standard of human comfort. Years ago in England the condition of the working men in some districts was appalling. They were worse housed and worse fed than the cattle. Finally in Rochdale, amid the jeers of the mob, a little co-operative store was opened in Toad Lane. It was but a few months before the public saw that the patrons of "the Store" seemed better fed and better dressed than the others. Landlords said they paid their rents more promptly. Success followed, and today the co-operative institutions of England are numbered by the thousands and their capital by the millions

of pounds. And the working men can never be forced back to their old style of living. How was this accomplished? By charity? Not one penny was ever so given by the organization. It was by equal and exact justice in business methods. There is a lesson in this.

The Mutual Co-operative Insurance Companies of the United States have done a grand work. How much their savings to the policy holder amount to is a matter which cannot even be estimated. It is somewhere in the billions of dollars and that is beyond comprehension. Nor can anyone estimate the increased comfort in living coming from the higher standard of Mutual Insurance with regard to keeping homes in better condition, in fostering habits of promptness and a general care for each other's interests.

The usefulness of co-operation is just beginning. The world is growing better, wiser and more honest. It is the few who are rapacious and oppressive, and with each successive year there will come into the field a new army of co-operators, and so the force is growing which will finally overthrow the whole trust system. This will not only clear the way for co-operation, but will make it possible for many organizations which are now compelled to adopt trust methods, to do an honest and respectable business.

#### **CO-OPERATION REQUIRES BUSINESS ABILITY.**

Sometimes it is said that a co-operative enterprise is a simple affair, something that will almost run itself. This is a most pernicious error. There

is no form of business which requires more skill in the general management, more accuracy in the accounts and more care in details, than this. Moreover, there must be strict and absolute honesty everywhere. Lacking any one of these essentials, failure will inevitably ensue. This suggests a word of caution. When a man needs reforming it is the best plan to reform him first and admit him afterward. It will be well to have it understood that membership in a Mutual is a certificate of character, but the certificate should never be dated back. If a building needs repairing, let these repairs be made before the policy takes effect, not afterwards.

Friends of co-operation injure the cause when they claim too much. It holds a large place in the world but not to the entire exclusion of every other method of transacting business. The corporation organizer, the captain of industry, the inventor and the man of genius will always be in demand and will always be able to command large rewards for legitimate services. Co-operation is not a weapon of offense, its mission is not to destroy but to build up, its voice is not for war but for peace, and its watch-word is not conquest but fraternity. While it takes care of its own, it will always leave an equal chance for every one else, and while it thrusts its hands into no one's pocket it does not permit any other hand to remain long or comfortably in its own.

**CO-OPERATION MUST NOT BE CONFOUNDED WITH PROFIT SHARING.**

Co-operation is often confounded with profit sharing. The two are different in every particular. In profit sharing there is either corporate or individual ownership and these owners employ and pay the laborers. Capital draws a share in the profits and this share goes to its owners. Sometimes a portion of this share is awarded to the laborers but always as a method of payment. It accomplishes the same results as a sliding scale of wages. In both cases there is the private or corporate organization, profit to capital, ownership by those who do not labor and labor by those who do not own.

**IS NOT SOCIALISM.**

Above all it must be clearly distinguished from socialism. Co-operation asks from the state no favors. The same right of existence which is accorded to other business organizations is all it requires.

On the contrary, socialism is practically a monopoly by the nation. All service, all producing of whatever kind, is done by the government. No ownership is recognized but that of the nation. No further explanation is needed to make the difference clear and these outcries of the enemies of co-operation, that it is socialistic should be disregarded.

**A FALSE CRITICISM.**

A common criticism on co-operative enterprises is expressed somewhat as follows: "Yes, your busi-

ness is getting along all right, it will continue to prosper till it becomes large enough to attract attention. Then some ambitious persons will conspire to get hold of it and as the 'outs' are frequently stronger than the 'ins' there may be a change and the business may fall into the hands of persons who care for nothing but their own aggrandizement." As evidence, showing that their criticism is not unfounded, they point to the strife raged in the eastern cities for the control of the funds of the great life insurance companies, and to the continual quarrels in the management of many other organizations. If such things occur where only a few are privileged to vote what will be the situation where every policy holder has a voice in the control?

In the past there has been force in these criticisms. Many a well planned co-operative enterprise has failed because some one obtained control who was either incompetent or dishonest. An idea prevailed that co-operation did away with the need of skill and experience in the manager, that any body could run a co-operative enterprise, the members took no particular care in the selection of the officers, they voted for the smooth tongued talker or the jolly good fellow and disaster followed.

But as time elapsed it became evident that co-operation is a form of business and a form which requires as much education, experience and skill as any other method, and as that fact impressed itself upon the fraternals of the community they became more and more careful in the selection of their officers. The tendency at the present time is to retain

those who have given good service and to value experience and skill at their proper worth. Faithful servants are retained as long as they will serve, especially in the Mutual Insurance Companies. One secretary in one of the largest Mutuals has a record of forty-five years, another of thirty-six, while there are a large number who have served from twenty to thirty years. Great care is also exercised in selecting directors. Terms of service are from three to five years and at each annual election, those who are willing to continue are generally re-elected.

In every community will be found a class of people who will not work and who are complete and absolute failures in life, but who have, nevertheless, innumerable schemes for making everybody rich. It is a peculiar characteristic of these plans that they invariably include as a condition of success that their originator be put in charge of the business at a good salary. These men sometimes succeed in influencing enough votes to secure them positions in co-operative institutions. When this takes place, the establishment might as well close its doors at once. The man who is a failure in his own business is not fit to have any part in the management of a co-operative enterprise or of any other. It will be a bright day for the country and its institutions when public sentiment is advanced enough to relegate all such botches and grafters to the rear.

Mutual Insurance men should never elect to office a man whom they would not trust with the management of their own private business. Wrecking is possible on a small scale as well as on a large

one; so is grafting. The late developments in the case of the large life insurance companies of New York state should be a warning.

Let every co-operator remember that eternal vigilance is the only safeguard, and to put in office only men whose lives have demonstrated their capability and integrity.

Co-operatives sometimes settle a transaction all at once. They may buy a quantity of goods. As soon as the purchase price, freight and other expenses are ascertained, the exact cost can be arrived at, each one can pay his share and the transaction may be closed. Generally the matter is not disposed of so summarily and in the case of Insurance such settlements would be impossible. The exact cost cannot be ascertained till the expiration of the policy. In the advance premium and the note companies there is an unused balance which is returned to the policy holder. Agents frequently forget this, and in comparing different methods of doing business they take the whole note or advance premium as a basis. They lose an important advantage in doing so. The comparisons should be made between the cost of the two as shown by actual experience, that is what the policy holder has paid for a completed term in a Mutual and what the usual charges for the same indemnity would amount to under other methods of doing business.

#### **WILL HOLD THE FORT.**

But the soul of co-operation is honesty. Not the negative character which simply avoids the evil, but

the positive "virtue" of the old Roman, who not only had convictions, but courage enough to fight for them. Such honesty is aggressive and makes converts, it is the honesty of true co-operation.

That co-operation will succeed without a struggle is not to be expected. It will be attacked on every side by those interested in other lines of business. The fight will be a fierce one. No great principle, no improved method was ever adopted without a contest. Why should it be otherwise with co-operation?

What can be had for nothing is worth nothing. The man who is in nobody's way is a nonentity, and the organization which no one opposes is of no use to anybody. The Mutuals have a fight on hand. There is no cause for discouragement. They can hold the fort in spite of all opposition. They are here because they are needed and being needed, they will stay.

## CHAPTER IV.

### COMPARISONS.--The Joint Stock and the Mutuals.

#### SCURRILOUS ATTACKS.

The perpetual and persistent attacks upon the Mutuals have been a vexatious hindrance. It has been reiterated in season and out of season, that the Mutuals are inherently weak and are dragging out a precarious and short lived existence, which only averages about fifteen years. Circulars have been scattered broadcast over the country giving purported lists of "Failed Mutuals," and in fact, every scheme and device imaginable has been resorted to in order to weaken the faith of the people in their ability to manage their own insurance business.

To set at rest all these misrepresentations, a statement of the bare facts will suffice. In the absence of any compilation of statistics of the Mutual business, the following has been gathered from various sources, the authority for each fact being given.

#### THEIR RECORD.

In the census of 1890 there is a volume of insurance statistics. It is now fifteen years old, but is valuable as a basis for comparison. The tables are not summed up, and the following results were obtained by going over the pages line by line, and making an actual count. Table one of the census gives

the names, dates of organization, dates of commencing business, and in case of retiring during the decade, the date of retirement, just the bare facts for the years 1880 to 1889 inclusive, and only concerning such companies as were in business during the decade or some portion of it.

In ten states, southern and Pacific, there is no mention of Mutuals. Presumably there was adverse legislation. In two states they seem to have been wiped out. In a few other states there seems to have been no interest whatever in insurance, there being very few either joint stock or Mutuals reported.

But in twenty-three states, where the Mutuals have been given a fighting chance for their lives, they have made an unapproachable record. Especially is this true in Illinois, Iowa, New York, Pennsylvania and Wisconsin, each with over a hundred Mutuals at that time. Indiana, Minnesota, Ohio, Missouri, New Jersey, Connecticut and others, follow with records as good in proportion, while Rhode Island, Delaware, Tennessee, Virginia and West Virginia, each report farm Mutuals, but no failures.

Bear in mind that in these figures everything is put down to the discredit of the Mutuals except an absolute and positive success. Consolidations, changes of name, withdrawal from business without loss after reinsuring, reorganizations, unused charters, have all been counted as Mutuals retired.



#### **MRS. MARY A. LEEKLEY, PERRY, OKLA.**

Mrs. Mary A. Leekley was born in Iowa. In 1897 with her husband she removed to Oklahoma. Following the death of her husband she served as deputy register of deeds three years and refused the nomination tendered her by her political party for the same office. Subsequently she was elected as secretary and manager of the Oklahoma Farmers' Mutual Insurance Company of Perry, Oklahoma, which position she has held for a number of years. Mrs. Leekley is a woman of many accomplishments, is a charming conversationalist and possesses a keen instinct and relish for business transactions. She illustrates what can be done by a woman who will set her mind upon the task.

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**THE CENSUS FIGURES.**

The census enumerates five hundred and thirty-five home stock companies, as doing business in the United States during part or all of the decade, at the close, one hundred and seventy-four were out of business, many of them old established companies. There were five changes of name.

In the same period there were one thousand four hundred and three farm Mutuals. Of these, one hundred and three retired and some of these were Mutuals only in name.

That is 32.6 per cent of joint stock companies retired but only 7.2 per cent of farm Mutuals. This shows the staying power of these Mutuals to be nearly five times as great in proportion as that of the joint stock companies.

**THE MUTUALS THE OLDEST COMPANIES.**

An examination of the comparative ages of the companies, as found in the table, shows that the Mutuals are the old companies. The oldest of all, of which Benjamin Franklin was an officer, "The Contributionship for the Insurance of Houses from Loss by Fire," dates back to March 25, 1752, and is a Mutual. The next company, The Mutual Assurance Company of Philadelphia, chartered July 5, 1784, is also a Mutual. In all the table gives ten companies chartered prior to 1801, and consequently dating back to the eighteenth century. Six, including the two oldest, are Mutuals, the other four are stock.

A further inspection of the table shows that three hundred and twenty-six of the companies were in business prior to January 1, 1861, one hundred and nine of them are stock companies and two hundred and seventeen are farm Mutuals, almost exactly two to one in favor of the Mutuals.

A count of the Mutuals of the state of Wisconsin shows that of one hundred and eighty-six companies mentioned in the table, one hundred and fifty-three had been in business over ten years. Of these only three retired during the decade under consideration and only one of those started during the next ten years, had retired up to 1890. Not one of the forty-seven companies organized before 1874 had failed or retired. Other states show similar excellent records.

An attempt to procure census statistics of a later date, elicited the following reply:

UNITED STATES CENSUS OFFICE

Washington, D. C., December 11, 1903.

Mr. C. F. Mingenback, Chairman,  
McPherson, Kansas.

Dear Sir:

I am in receipt of your letter of December 7th, in which you ask for statistics on fire insurance—if any were published by the Twelfth Census.

In reply, I beg to advise you that under the provisions of the Census Act, this subject was not designed for special investigation. I am therefore unable to furnish you with statistics concerning it. I regret my inability to comply with your request. Very respectfully,

S. N. D. North, Director.

The priceless value of another set of tables ten years later, for the purpose of comparison, is apparent to every member of this organization. In fact, about the only real value there is in census tables is for such purposes.

Why was this particular subject left out of the provisions of the census bill? There is no explanation.

#### MR. UPHAM'S QUOTATIONS.

The following from Mr. Roger H. Upham's magnificent address at Chattanooga in 1903 will serve as a basis for some comparisons. It originally came from the report of the State Insurance Commissioner of Massachusetts for 1877.

"Twenty-one (all but six, and those small ones with but a single exception) of the Massachusetts stock companies were bankrupted by the Boston fire of 1872, with two exceptions these companies had an unimpaired capital and a liberal surplus when the great conflagration came, yet they were able to pay but 50 per cent of their insurance losses.

"Four Mutuals were forced into liquidation by the Boston fire. Three of them paid their losses and debts in full. The other paid 85 per cent of its losses and debts.

"Several other Mutuals suffered losses that greatly exceeded their cash funds and would have bankrupted stock companies of equal size, but they met their obligations from drafts upon their contingent liability funds and are strong, excellent institutions to-day.

“This relatively shows the strength of Mutual companies with that of stock companies in case of trouble.”

That needs no comment, the wayfaring man, though a fool, need not err therein.

#### **A JOINT STOCK WAIL.**

Now compare a paragraph taken from the Underwriter’s Review, Des Moines, Iowa, June 10, 1903. The companies referred to are joint stock.

“The optimistic projectors of the numerous two hundred thousand dollar fire insurance companies being launched throughout the country might study with profit the long list of companies which have failed and retired during the past twenty years. In conservative Boston alone, according to a list prepared by the Standard, out of fifty-four companies organized since 1803, only three remain, now that the North American has voted to go into liquidation. Of these thirty-seven have retired since 1871 and sixteen since 1880. The fire underwriting highway is strewn with wrecks and retirements throughout its entire course, most numerous, however, since the ‘Seventies’, the Boston experience being only suggestive of a more widespread mortality elsewhere.”

The same paper, the Underwriters Review, March 25, 1905, says:

“A striking illustration of the unprofitableness of fire insurance is found in the list of companies either failed or retired as given in the just issued New York report. This shows that since the insurance department was organized in 1859, 147 New

York stock fire and marine companies have ceased business and that 220 companies of other states and 33 foreign companies have retired from New York, not all, but the major portion of which are dead. This shows that over two and a half times the number of stock companies now doing business in New York have disappeared from the state in the past.”

**SUPERINTENDENT DEARTH QUOTED.**

Turn now to Minnesota, compare her Mutuals with the joint stock companies of Boston. Also bear in mind that the Boston and New York companies have been aided in every possible way by legislation, while the Minnesota Mutuals had to fight for their lives. The following is taken from the speech of State Insurance Commissioner Elmer H. Dearth, delivered before the National Association of Co-operative Mutual Insurance Companies in 1902. Speaking of the laws of 1875, previous to which Mutuals were barred from the State, he says, “During the first year after the passage of the act there were but two companies organized—The Featherstone Mutual of Goodhue county, and the Manchester Mutual of Freeborn county. The Featherstone Mutual, however, never transacted any business, surrendering its charter within the first year after the organization. It is interesting to note that with the exception of this particular company, and one other organized some years later, which also surrendered its charter before transacting any business, none of the township Mutuals in this state have ever retired from business, there not having been a single

failure through unprofitable underwriting, and up to date, or at the close of the year 1901, there have been 132 incorporated, 130 of which are in active operation and enjoying a high degree of prosperity."

The total number now in operation is one hundred and forty-two, and the total saving to date is estimated at over twelve millions of dollars. In his Preliminary Report issued February 23, 1904, Mr. Dearth says that "No other class of business, whether of insurance or of any other line, is conducted so eminently successful at such a very small cost."

#### **PRES. FORBES' STATEMENT.**

Again, compare with that Boston jeremiad the following Iowa statistics furnished by President Forbes of the National Association:

"There have been organized in the State of Iowa, 192 Mutual Insurance Companies, under what is known as Chapter 5 of the code of laws. There are now in successful operation, 187 companies doing business under Chapter 5 of the code. There have been five companies suspended or failed to do business. Some of these companies, while organized under Chapter 5, were not really mutual co-operative companies, and for this reason they were compelled to suspend business and went into the hands of a receiver, and I hereby enclose you a clipping from our daily paper of the last one that succumbed to pressure, which will give you an idea of all the companies that have suspended and for what reason."

The clipping shows that the companies which failed were not entitled to be classed as Mutuals.

#### OTHER AUTHORITIES.

Wisconsin has had forty-four years experience with Mutuals and Commissioner Host writes in his last report, "Kept within the meaning and purposes of Mutuality, and the well tried limitations and restrictions adhered to, with the economy and care that has characterized the management of these companies, there never will be a failure, and the protection afforded will always be the best."

The Insurance Commissioner of Pennsylvania writes concerning farm Mutuals, "There are about two hundred of these companies which confine their business entirely to farm properties and I presume there have not been more than eight or ten of such companies that have gone out of business in the last twenty years."

The Commissioner of Washington writes that there are eleven Mutuals doing business in that State, and so far as he can find, only one has withdrawn after being organized.

#### THE BALTIMORE FIRE.

Shortly after the great conflagration in Baltimore, an old line journal made the statement concerning the Insurance Companies of that city, that all but two of the local companies were in the hands of a receiver, and that "The local Mutuals were gone for good." The Manual Committee wrote to the

Insurance Department of the State of Maryland. The following pungent reply was received:

C. F. Mingenback, McPherson, Kansas.

Dear Sir: Your requisition of the 18th inst. received. In reply, beg to advise that the Baltimore Equitable Fire Insurance Society referred to in your letter is A No. 1, and there is no necessity or prospect of their discontinuing business. I am afraid your informer did not know what he was talking about.

Yours Very Truly,

LLOYD WILKINSON,  
Insurance Commissioner of Maryland.

At a later date, after the effects of the great fire were fully developed, a list of failures was procured. Of the seven Maryland Mutuals doing business before the fire, two went into the hands of the receiver, leaving five to continue. There were eight joint stock companies of which five became bankrupt, leaving three to go on. Several joint stock companies of other states were forced out of business by this fire. But taking the insurance companies of Baltimore alone, the score is two to one, in favor of the Mutuals.

The New York State Insurance Department has collected statistics of the companies under its jurisdiction. Many New York companies did no business in Baltimore owing to the enormous local taxes. But thirty-eight companies insured property there and suffered loss. Every one was well managed, with unimpaired capital and ample surplus. And without that surplus, every one would have been thrown into the hands of a receiver. Most of them would have been hopelessly bankrupt, a few might have

continued in business after levying a heavy assessment to replace the lost capital, for incredible as it may seem after all the talk about mutual assessments, the old line stock holder is not infrequently liable to assessment himself.

Four companies lost an amount equal to their entire capital. Their surplus saved them. The fourth paid in full but reinsured and went out of business rather than levy an assessment to make good its capital. Its surplus was entirely absorbed. Two others lost all of their surplus and part of their capital.

#### **THOSE FAILED MUTUALS.**

Some years ago a list of failed Mutuals was circulated to frighten the public. It contains about 150 companies of which some were only chartered and some were Mutuals in name only, and over thirty did not pretend to be farm Mutuals, but admitting, for the sake of the argument, that they were all failures, how does the list compare with the old line record,—as 8 per cent to 35, or more than four to one, in favor of the Mutuals. That is, taking the worst they can say about the Mutuals, the stock companies are four times as risky as the Mutuals. But this is not a fair showing. It is not claimed that farm Mutuals never fail. There are promoter's Mutuals as well as old line wild-cats. The organizer who starts new lodges for the charter member fees is a familiar character. Such men sometimes enter the Mutual field. Again, there are organizations which are limited or which have a joint stock capital and which

adopt the name Mutual without any right, whatever. Failures of this kind have all been charged up to the Mutuals, but in the states where statistics have been accessible, the showing is different, as in Minnesota and Iowa, for instance. Among a total of nearly 300 Mutuals, not a single failure of a genuine farm Mutual has come to light.

FROM NEW YORK STATE.

At the meeting of the National Association at Topeka, Kansas, in 1904, a very able paper from Clawson Backman, president of the New York Central Association, was read. The following are extracts from it:

“We have yet to find in the State of New York where any Mutual Company ever retired or discontinued business and failed to pay 100 cents on the dollar.”

“We some times come into competition with old line companies where they are trying to find some old bankrupt Mutual Company, 'way back, years ago, and see if they cannot get someone to sue on a premium note, and then have this published in the papers, that the Mutuals have had another assessment which cost from \$10,000 to \$20,000. Now there is as much difference between these Mutual Companies in the State of New York, as there is between day and night. There are so called, the old stock mutuals, where it requires \$20,000 in cash, and \$80,000 of capital stock notes, and they issue non-participatory policies.”

The assured has nothing to do with these companies whatever. The only people who have formed

these companies become stockholders and derive the benefits. These should have been called joint stock companies, for the assured never derives any benefit from this kind of insurance.

Careful inquiry among the officers of State Associations has resulted in a great number of replies of the same tenor. The farm Mutuals seldom or never fail. The much advertised failures are failures of companies which either were not Mutuals, or which never were organized as legitimate companies, and were never managed by farmers.

In a recent address, an old line official said that the Mutuals might be successful in narrow limits where the problems were simple, etc.

The Mutuals will accept that challenge at once, and the speaker might as well have put his covert sneer into plain language and said that the farmers were a lot of chumps who did not know what was good for them.

Articles have been going the rounds for some time stating that the records of the great mercantile agencies show that only one per cent of the business firms fail in a year in the United States. Now the Mutuals will accept that as it stands and they will count nothing as a failure among joint stock companies which is not absolute bankruptcy, i. e. non-payment of liabilities. On the other hand, they will count as failures, among Mutuals every charter issued but never used, every consolidation, every retirement from business, whether liabilities are paid or not. The joint stock men shall have all of these advantages, for they need them.

**FROM OTHER STATES.**

In Minnesota there are one hundred and forty-two farm Mutuals, all organized since 1875 and most of them shortly after that date. At the mercantile rate of one per cent a year, the failures for the period of twenty years would have been at the lowest estimate, between twenty and thirty. How many were there? One charter was taken out and returned unused, and one company paid up and retired.

In Iowa, out of 192 farm Mutuals, five have gone out of business. The mercantile ratio requires thirty or forty.

Pennsylvania has two hundred farm Mutuals, and the commissioner thinks that not more than eight or ten have gone out of business in twenty years. The mercantile ratio requires forty or over.

The same testimony comes from other States. Correspondents everywhere say that they never have heard of the failure of a farm Mutual managed by farmers alone.

Let it be repeated again and again that there is no business in the known world which can show as good a record as these same farm Mutuals managed by the farmers themselves.

Compare again the failures among the Mutuals with the business records. Count the mercantile firms in any city, then count those, who through lack of success or actual bankruptcy, have gone out of business during the last two decades, and it will be found that the dead outnumber the living. It is doubtful if there is a city or a town in the whole

country where one-half of the firms started during the last twenty years are still alive. Against this put the record just given and the result is ten to one, in favor of the Mutuals.

#### OTHER EVIDENCE.

There is still other evidence on this question. The State Insurance Commissioner of Illinois has computed the amount of assets per \$100 of total risks in his state. He gives it at \$1.30 for the joint stock companies and \$7.68 for the Mutuals. Data for the same comparison are to be had in very few states. New Hampshire shows \$1.60 for the joint stock, to \$2.75 for Mutuals, the cash Mutuals only being given. Connecticut shows \$1.80 to \$2.01, eleven mutuals only, being given. Ohio shows \$3.21 to \$6.92, the town Mutuals not being included.

Every computation of this kind has shown a decided advantage on the side of the Mutuals.

A single comparison between two companies will answer. The Aetna, of Hartford, Connecticut, the strongest and best managed joint stock company, is taken on the one hand, and The Philadelphia Contributionship, the oldest insurance company in the United States, a Mutual, on the other.

NAME	COM. BUSINESS	GROSS ASSETS	GROSS RISKS
Aetna	1819	\$15,306,151.13	\$643,937,568.00
Contributionship	1754	4,990,474.84	15,034,459.00

Compute these ratios and see which is the strongest.

To sum up, the public records, the testimony of the State officials where the Mutuals are numerous,

with but a single dissenting voice, and that one distrusted, give evidence that the Mutuals are more enduring than the joint stock companies. The failures are far fewer in proportion to the number, and when a great conflagration sweeps over a city, it is the Mutual which stands the shock. A comparison of resources, the real test of ability to pay, shows that in proportion, the Mutuals are far better prepared for a storm than are the old line companies. In short, the charge of weakness, so often made against the Mutuals, is a pure fabrication of the basest kind.

These facts should be scattered broadcast, and the true state of the case put before the people. The Mutuals have been on the defensive too long. They should assume the aggressive at once and let their opponents do the defensive work.

The reason why farm Mutuals were made the basis of comparison in this article is that there was no possible method of classifying the others as the data were incomplete. In some states there was no distinction, in others the basis was different. An attempt to classify the Mutuals from reading their reports, met with no success. There is also another reason, these Mutuals have been derided, sneered at and so outrageously vilified, that it seemed that they had a special claim to a good defense.

#### **COUNTERFEIT MUTUALS.**

That Mutuals never fail is not claimed. All that is asserted is that the per cent of failures is smaller among the Mutuals than among the joint stock companies. The old line companies circulate

lists of failed Mutuals. Some of these should be charged up to the old lines. In New York State, years ago, joint stock companies were organized with 20 per cent paid up and 80 per cent in notes. They called themselves Mutuals, but they had not a single co-operative feature. Most of them failed. They are all charged up to the Mutuals in these lists.

Iowa furnishes another illustration. There were several so called Mutuals there which are known as "stock mutuals." They are not recognized as Mutuals. Some have failed, some have organized as joint stock companies. It is only a question of time when all will go, yet they are charged up as "Failed Mutuals."

Swindlers have claimed to be agents for Mutuals which never existed, have collected premiums and then absconded. These are put down as "Failed Mutuals." Every shift or device to swell the list has been adopted and yet in proportion to the number of joint stock companies which have become bankrupt it is still insignificant.

The joint stock fire insurance companies have invested heavily in the stocks and bonds of the several western railroads. The interest of these great corporations are bound up together. The Mutuals are organized in the interests of the people. Shall they be crushed out to leave the field free to great trusts?

Who are the men who advocate these changes? They are the agents of the old line companies. Have they any interest in common with the mutual policy

holder? How did they treat the farmer in the hard times years ago? How many farms did these men help the insurance companies to foreclose on?

#### **A CONFESSION OF WEAKNESS.**

There is another argument in favor of the Mutuals that cannot be gainsaid or refuted. It is that joint stock companies resort to legislation to shut out the competition of the Mutuals. No man or set of men will use such means if it can possibly be avoided. They are the last resort and a confession of weakness. Looking after the necessary legislation is troublesome and expensive even if there is no actual bribery. There is a continual fight on hand. Monopolies are unpopular and the people will demand unfriendly legislation and it will cost something to resist that, and the resulting public prejudice will make itself felt with courts and juries. Business men avoid all these whenever they can and so would the joint stock company if it could. But the average American who knows a good thing when he sees it has learned the truth about the Mutuals. He has seen that they are safer and cheaper. There is no evading the conclusion. Then the old liners go to the legislature with a batch of innocent looking laws designed to protect the people. They go through. And then the lawyers begin to construe them and before long they are construed into all sorts of prohibition against the Mutuals. To have asked for this legislation openly and frankly would have been to have defeated it. The fact that such legislation has

to be smuggled through is another evidence against the joint stock companies.

**STATISTICS PROVE IT.**

The Insurance Year Book for 1905-1906 contains some interesting matter. The National Board Tables show that in the decade, 1871-1880 inclusive, the number of joint stock companies in the United States, whose statistics that body obtained reached its maximum average, 162. This number diminished to 98 in 1896, then rose to 127 in 1899 and fell to 112 at the present date. Their total of foreign and home companies combined is now 144. The average insurance written annually by the United States Companies was in 1871-1880, \$4,858,438,135, in 1904 the amount was \$16,724, 349, 419. That is, while the number of companies has diminished over thirty per cent, the business has increased almost three hundred and fifty per cent.

There are some companies not included in these figures for on page 233 the Year Book gives figures which show a decrease in the number of home and foreign companies from 1900 to 1904 inclusive, from 321 to 303 or 18, five of this was in the foreign companies. Deducting the 68 foreign companies from the total number there remains 235 as the net total of home stock companies. During this period the number of Mutuals large enough to be reported by the Year Book increased from 172 in 1900 to 212 in 1904, a net growth of 40.

The census report for the decade 1881-1890 inclusive, shows that 535 United States joint stock companies did business during that period. Of these five changed their name and 174 disappeared, leaving 356 in existence at the end of the decade. At present the latest estimate is 215, which agrees very closely with the Year Book figures.

The period from 1881 to 1905 has been one of growth, new towns have been built and the older ones have enlarged their borders. Insurable property has increased rapidly and with it the amount of insurance written. But the joint stock system presents the anomalous spectacle of an increasing business, transacted by a decreasing number of company and with a decreasing capital.

That this is legitimate no one will believe. One of two things must be true. Either the joint stock system is structurally weak, is inherently wrong, or that it is concentrating into a trust. There is no other conclusion, there is no escaping from the dilemma.

This Year Book also contains a table or list of failed or retired insurance companies, both old line and Mutual. It gives the date of failure, withdrawal, reinsurance, merger, or whatever else took place. It is fairly and carefully made out and is probably as near correct as possible. It is not summed up but a casual inspection will show that it more than corroborates the figures given elsewhere in this chapter.

**ANOTHER ATTACK.**

A recent issue of an old line journal says that "what the premium payers want are concerns that will pay losses and only the stock companies can be depended on for that."

The figures of accepted authorities on insurance matters will furnish the best refutation of that statement.

The census reports for the decade 1881-1890 show that the failures among the Mutuals were 7.2 percent of the entire number, the failures among the old line companies were 32.6 percent—the net ratio being four to one, in favor of the Mutuals.

The *Spectator Insurance Year Book* for 1905 gives an up to date list of failures, withdrawals, mergers, etc. It shows that the ratio in favor of the Mutuals is increasing steadily.

Mr. F. J. Martin's paper published elsewhere, a full and faithful compilation, gives the comparative resources of the two classes. The Stock Companies carry in all, \$4.90 to each \$1000 of insurance. The cash ability of the Mutuals is \$6.37 per \$1000, or in round numbers, one and one fourth times as much as the amount carried by the old liners.

The total liabilities of the stock companies equals 68 per cent of their assets, the total liabilities of the Mutuals equals 34 per cent of their assets. This is 2 to 1, in favor of the Mutuals.

The figures stand thus far,

	Mut	Joint	
	ual	Stock	
Strength as indicated by failures, .....	4.	1	
Strength as indicated by resources to \$1000..	1.25	1	
Strength as indicated by assets to liabilities..	2.	1	

There are still other considerations. There is a mercantile maxim that the lower the expenses the greater the ability to meet obligations. The average expense of the joint stock companies, according to Mr. Martin's table is \$2.91 per \$1000 at risk, excluding fire losses. This is only 45 cents less than the average total expenses of the Mutuals, fire losses and all.

The probability of contested losses cannot be ascertained from the published reports, but so far as the amount is given they indicate a far greater proportion among the old liners than among the Mutuals.

Adding all these probabilities together, it is very easy to see that instead of the old liners being the only ones that can be depended upon, the ratio is heavily against them in every case, and that they realize this fact is evidenced by their course, for it is always the weaker in the fight that makes the most outcry.

But enough space has been taken up with this matter. It is not a pleasant subject. The Manual does not make a sweeping condemnation for there are many joint stock companies which are honorably conducted and which never resort to questionable

tactics. But the flood of circulars, the venomous letters, and the frequent misrepresentation, all designed to injure the Mutuals, require an answer and it is hoped that no further allusion to the subject may be necessary.

**AGGRESSIVENESS A DUTY.**

No man liveth to himself. Bound together by ties as old as the creation, mankind will always be dependent on each other. In social life the Golden Rule is the paramount law. In statesmanship there is a maxim "The first duty of a minority is to become a majority." This means that whoever develops a useful idea, a beneficent theory or an advantageous plan of action, is in duty bound to publish abroad his discovery, to convert others to his own belief, that they, as well as himself, may enjoy its benefits. The mercantile world recognizes this, even its most flamboyant advertising is, on its face, an invitation to share in some benefit, to purchase some useful article, or if nothing more, to share in the benefits resulting from a reduction of manufacture. This duty appeals strongly to the Mutuals. They have a system which they find to be beneficial. This alone would impose upon them a duty. But there is another phase, the Mutual plan dispenses with the immense aggregations of wealth which are piled up under the joint stock plan. The danger of these, from a moral standpoint, may easily be estimated by any one who has read the astounding developments among certain life insurance companies of New York City.

It is true that New York is an exceptional city, and that these were exceptional companies, it is also true that the exposures may do something to check the evil. But so far there is no evidence that any one of the parties concerned in these transactions has been brought to justice or has even lost social position.

Turn now to the great assessment companies. With just a working balance in their treasuries, and a small emergency reserve, these organizations are paying their losses promptly and with a far less proportional expense. And having no heavy investments to make, they are not entangled with railroad stocks and bonds, or any other corporation investments.

If the Mutuals occupied the position to which they are entitled, if they had the business which really belongs to them, how much of this evil would be avoided. It is then clearly the duty of the Mutuals to advocate their plans and theories as aggressively as possible, not merely to increase their own business and influence, but to do their share of the duty which falls upon every man, to so live that he shall leave the world better than he found it.

## CHAPTER V.

### IMPORTANT STATISTICS.

In constructing tables to show how much has been saved to the assured by the Mutuals, it is customary to compare the rates of the Mutuals and the joint stock companies as they are at present. This does not cover the ground. In many localities the rates of the stock companies have been cut fifty per cent or more since the organization of the Mutuals. While the policy holders of the Mutuals are not directly benefited by this, other people are, and as there is no reason to believe that these reductions would have been made had not the Mutuals come into the field, they should have credit for the saving. The fair method is to take the cost of Mutual insurance and compare it with the rates of the joint stock companies when there was no competition.

#### F. J. MARTIN'S LETTER.

“Mr. C. F. Mingenback,

“Concerning your request to furnish an article for your Mutual Insurance Manual, treating of the comparative cost of mutual and stock company insurance, I think the most valuable information I can furnish you would be a tabulation showing the insurance carried and the cost of same in both mutual and stock companies in all the States. I, therefore, submit these tabulations and will simply call attention to some comparisons.

# STOCK COMPANIES 1904.

STATE	(1) No. Co- mpanies	(2) Insurance writ- ten home state	(3) Total Insur'nce in Force	(7) Capital	(8) Surplus	Gross Assets	(4) Premiums Received	(6) Expenses	(5) Losses Paid	
Alabama .....	2	2,085,266	1,374,801	150,000	100,750	258,528	22,876	3,708	2,546	
Arkansas .....	2	2,924,762	2,475,163	168,100	6,118	195,380	45,699	16,929	2,463	
California .....	3	65,635,509	565,276,233	2,600,000	6,312,748	15,988,752	5,580,226	1,922,468	2,956,348	
Colorado .....	0									
Connecticut .....	7	66,701,908	3,867,810,191	10,150,000	16,316,830	54,482,655	30,736,706	11,034,985	18,888,394	
Delaware .....	2	1,516,328	4,871,111	140,000	29,434	229,428	46,499	20,646	87,652	
Florida .....	0									
Georgia .....	2									
Idaho .....	0									
Illinois .....	6									
Indiana .....	3									
Iowa .....	13	88,974,873	227,847,163	1,200,000	2,473,643	8,356,464	4,902,576	1,949,587	2,128,104	
Kansas .....	2	17,060,353	61,683,245	400,000	1,053,771	1,136,006	646,779	268,203	240,486	
Kentucky .....	4	2,351,295	9,954,700	100,000	118,537	4,187,932	2,157,047	989,559	672,827	
Louisiana .....	8	41,727,933	134,774,581	600,000	305,240	576,494	363,769	129,960	223,291	
Maine .....										
Maryland .....	3	34,019,477	111,803,463	200,000	327,265	979,493	3,999,831	1,742,290	184,539	
Massachusetts .....	4	41,962,668	619,652,777	920,000	1,672,222	706,603	203,388	617,655	1,031,715	
Michigan .....	3	19,332,024	101,979,540	3,700,000	3,540,880	2,770,069	626,926	226,256	3,542,827	
Minnesota .....	2	32,098,822	293,196,472	900,000	932,938	11,761,735	4,881,785	2,096,643	3,418,768	
Mississippi .....	3	8,361,197	10,605,942	600,000	1,131,792	2,609,524	814,238	337,284	412,740	
Missouri .....	2			210,000	71,138	4,184,767	3,324,532	1,174,220	2,052,226	
Montana .....	0					469,070	224,827	63,961	150,641	
Nebraska .....	4	35,480,415	91,568,604	289,072,890	1,200,000	1,343,232	4,641,548	2,401,455	906,384	1,535,601
Nevada .....	0									
New Hampshire .....	6	36,421,924	328,114,172	1,475,000	179,017	1,191,346	579,634	270,488	214,903	
New Jersey .....	11			3,800,000	1,555,241	5,352,944	2,498,358	97,217	1,675,740	
				5,552,963	14,897,974	5,468,281	1,984,051	2,674,735		

New York	44	*1,747,749,896	8,140,393,592	18,850,000	41,606,312	113,785,889	55,307,166	20,968,733	33,640,682
North Carolina	8	36,460,981	44,492,816	873,259	306,916	1,776,187	435,578	204,031	282,937
North Dakota	1	2,359,158	7,371,569	200,000	105,916	383,886	200,229	82,738	60,489
Ohio	10	56,429,544	154,568,865	1,250,000	1,221,938	3,550,207	1,200,318	560,179	711,936
Oregon	0								
Pennsylvania	33	346,706,599	3,366,770,942	11,602,875	12,178,547	52,952,368	24,728,160	11,034,744	14,999,902
Rhode Island	3	12,698,001	327,266,257	1,020,000	667,632	4,078,948	3,231,622	1,101,740	1,842,588
South Carolina	0								
South Dakota	0								
Tennessee	5	4,601,667	6,779,890	450,000	50,805	556,456	70,686	94,777	41,122
Texas	4	11,911,940	15,687,709	601,647	124,942	903,205	183,278	133,565	57,396
Utah	1	4,551,527	7,952,530	250,000	117,627	330,127	27,901	12,323	7,805
Vermont	0								
Virginia	5								
Washington	0								
West Virginia	3	44,878,432	16,308,432	350,400	306,157	810,450	145,914	56,034	57,408
Wisconsin	6		701,327,646	1,450,000	2,936,834	9,004,767	3,950,426	2,027,941	1,776,741
Wyoming	0								
<b>Totals</b>	<b>215</b>	<b>2,765,002,499</b>	<b>21,309,535,367</b>	<b>69,260,094</b>	<b>104,685,709</b>	<b>333,490,723</b>	<b>158,883,042</b>	<b>62,092,279</b>	<b>96,813,852</b>

\* 1903 report.

(The compiler wishes to call especial attention to the statistics furnished by F. J. Martin, of Seattle. It is the most valuable paper in this line ever furnished to the public.)

## MUTUAL COMPANIES, January 1, 1905.

STATE	No. Co.- mpnies	Insurance in Force	Losses	Expenses	Insurance in home state	Cash Assets	Liabilities
Alabama .....	0	12,799,665 (No report)	97,248	165,626	12,799,665	105,844	248,628
Arkansas .....	9	11,278,632	78,371	56,569	11,298,632	124,894	162,025
California .....	10	105,821,184	219,813	71,591	35,730,249	2,283,318	489,095
Colorado .....	13	26,019,713	39,249	88,158	26,019,713	2,837,280	91,602
Connecticut .....	6						
Delaware .....	0						
Florida .....	*4	58,103,306	93,103	82,249	448,103,306	1,087,570	392,068
Georgia .....	1	\$1,007,506	4,877	\$15,000	\$1,007,506	Not given	
Idaho .....	1	255,269,030	730,289	337,286	\$195,165,940	2,135,099	731,073
Illinois .....	*203	20,842,402	158,182	107,530	17,233,701	345,557	144,212
Indiana .....	*6	352,246,260	965,582	545,833	352,246,260	605,508	145,686
Iowa .....	178	19,324,864	117,720	108,508	19,324,864	862,153	6,558
Kansas .....	18	34,774,475	67,706	83,055	34,774,475	807,497	211,709
Kentucky .....	21						
Louisiana .....	0						
Maine .....	48	29,252,001	79,295	51,101	29,252,001	138,804	
Maryland .....	19	110,649,843	2,986,629	135,968	110,648,843	1,788,043	649,978
Massachusetts .....	42	1,130,671,093	1,214,036	1,016,860	\$577,562,750	13,346,162	6,464,951
Michigan .....	98	396,758,021	819,799	290,997	373,700,155	2,106,233	1,731,567
Minnesota .....	157	204,840,571	343,260	165,844	195,656,385	678,336	408,225
Mississippi .....	0						
Missouri .....	*90	125,043,942	307,254	172,071	125,043,942	617,670	104,522
Montana .....	0						
Nebraska .....	75	\$151,814,756	261,910	235,581	\$151,814,756	577,277	345,416
Nevada .....	0						
New Hampshire .....	24	20,748,003	71,045	35,681	20,748,003	154,029	93,665
New Jersey .....	*9	33,917,806	70,871	21,681	33,017,806	284,728	162,804

New York	124	330,779,871	635,073	169,359	330,779,871	572,480	45,197
North Carolina	7	1,406,220	3,310	1,842	1,406,220	4,289	
North Dakota	26	\$12,913,470	93,120	57,000	\$12,913,470	Not given	
Ohio	141	587,838,850	1,349,116	834,593	327,292,753	4,285,126	2,213,070
Oregon	6	22,521,727	53,212	26,989	22,521,727	72,435	2,191
Pennsylvania	236	836,978,429	1,471,815	1,420,148	776,978,429	13,084,420	3,061,894
Rhode Island	22	740,481,610	560,830	445,081	543,185,906	8,638,314	3,338,625
South Carolina	0						
South Dakota	17	20,583,340	125,435	Not given	20,583,340	Not given	
Tennessee	8	4,875,958	15,280	19,441	4,875,458	23,829	5,686
Texas	20	Not given	64,397	31,071	Not given	93,990	41,714
Utah	0						
Vermont	3	90,272,085	345,263	99,082	90,272,085	364,832	152,871
Virginia	*2	16,456,070	15,848	23,381	16,456,070	1,834,358	301,425
Washington	12	22,141,592	64,549	104,223	22,141,592	171,556	35,160
West Virginia	0						
Wisconsin	247	312,503,702	584,580	217,017	303,513,702	706,735	106,532
Wyoming	0						
Totals	1902	6,100,036,047	13,207,458	7,226,416	4,832,073,625	60,738,366	21,798,542

\* Incomplete. † Does not include Farmers Mutuals. ‡ Estimated. § Am't written in 1904

“It will be seen that all the American stock companies have insurance in force to the amount of \$21,309,535,367. The net premiums collected during the year amounted to \$158,883,712. This is an average of \$7.45 for each \$1,000 of insurance in force. Of this amount \$2.91 on each \$1,000 of insurance was consumed for expenses. The insurance in force is about 20 per cent more than the amount written, consequently the rate charged on the insurance written amounted to about 89.4 c.

“The mutuals had insurance outstanding of \$6,100,036,041. The average cost for both losses and expenses was \$3.36 per thousand, or but little more than the amount consumed for the expense of the stock companies.

“In the tables published in the minutes of the National Association two years ago, it was shown that the insurance carried by American stock companies was \$17,671,153,442. Therefore, in the two years the insurance carried by the American stock companies has increased 20 per cent. The mutual companies two years ago carried insurance to the amount of \$4,591,375,173, so that the mutuals have made an increase of 35 per cent.

“The insurance written by the stock companies in their own home states two years ago was \$3,067,739,394. Last year it amounted to \$2,755,002,499, showing an actual decrease. The amount in force, however, is about 20 per cent more than the insurance written, therefore the insurance in force by all

the stock companies in their home states amounts to approximately \$3,306,002,998.

“The mutual companies are carrying in their own home states \$4,832,073,625, or about 46 per cent more than the amount carried by the stock companies. Of the whole amount carried by stock companies in their own home states, 63 per cent of the amount is in the State of New York, where the stock companies have succeeded in maintaining laws unfavorable to mutual insurance.

“It is also interesting to notice the comparison in strength of the two classes of companies. The cash surplus of the stock companies amounts to \$4.90 for each \$1,000 of insurance in force, while the cash surplus of the mutual companies averages \$6.37. The surplus of the stock companies would pay their average cost for less than eight months. The cash surplus of the mutual companies would pay their cost for more than twenty-two months.

“The liabilities of the stock companies equal 68 per cent of their assets. The liabilities of the mutuals is less than 34 per cent of their assets.

“In compiling these statistics no attempt has been made to show the ratio of failures in the two classes of companies. However, the statistics in the minutes of the National Association published two years ago show that for twenty-three years the percentage of failures among mutual companies has only been one-fourth as great as the percentage of failures in stock companies. It is not believed that the last two years’ record has made any material change in this ratio.

"It is interesting to note that as a result of the Baltimore fire, only one mutual company was forced to liquidate, namely, the Atlas Mutual of Boston, which was really insolvent before the fire and which never was at any time on a substantial footing.

"It is also interesting to note that the largest loss paid by any company in the Baltimore fire was paid by a mutual, namely, the Baltimore Equitable, which paid over \$1,900,000, and which still has a handsome surplus left.

"The system of insurance which has nearest reached perfection, is that of the factory mutuals, in which, under their careful inspection service, the losses have been reduced to the minimum. Many factory owners say that the inspection service they receive is well worth all the insurance costs.

"These factory mutuals have taken classes of risks, such as cotton mills, on which the stock companies would not make a rate of less than \$25 per thousand, and by improved methods of construction and equipment have reduced the cost to less than \$1.00 per thousand.

"Yours most truly,  
"F. J. Martin."

## CHAPTER VI.

# THE ECONOMICAL VIEW.

### TWO HOSTILE CAMPS.

In discussing the science of economics, men divide into two hostile camps, one holding that all that is results from evolution. The laws of nature are fixed, any attempt to interfere with their operation will only recoil most disastrously upon the head of the one who meddles with the due course of the universe. In short, it is a species of fatalism; what is, must be. It is hardly necessary to say that this is a favorite theory with those whose wealth has been acquired by practices not generally approved. Not long since, a book was written with the design of showing that one of the great corporations, whose methods have been the subject of much adverse criticism, was only the production of the forces of the time, that such a company was a necessity, and if this one had not met the long felt want another would have developed; that the members of this company were, therefore, free from all responsibility for the bankruptcies of those whose business they crushed, whose fortunes they ruined, and of whose property they became possessed. It is a somewhat remarkable co-incidence that complimentary copies of this book were received by a number of people

who were very much interested in securing donations for benevolent purposes along a line in which one member of this company had already made heavy investments at the expense of the public. It may be said that all of that class, whether in the great trusts of the world or in the petty village pool, are ardent admirers of this doctrine which sings such a sweet lullaby to their uneasy consciences.

#### THE WAR ON THE WEAK.

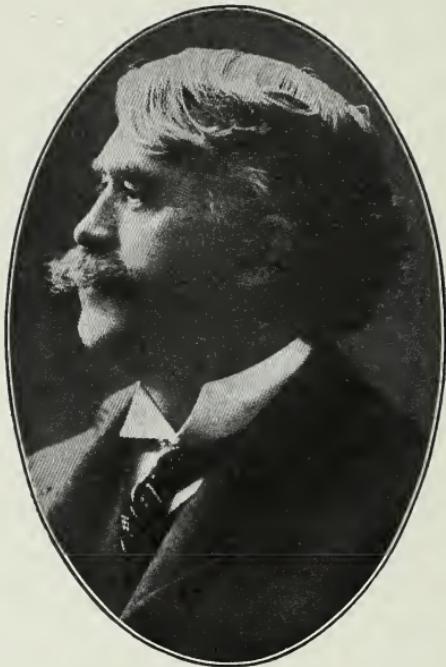
This theory of necessity, of development along fixed lines, is not always honestly held. If it were, then the intentional and willful crushing out of the weaker concerns would never occur. If, as its advocates aver, this theory foreshows that the weaker must go to the wall, that there is no evading such a result, then why does an occasional great combination resort to doubtful means for the purpose of ridding itself of a small competitor? The word "occasional" is used advisedly, for the Manual believes that the average man is sincere, and that most wealth is gained honestly. It appears to be demonstrated also that a single establishment doing an illegitimate business will disturb the management of every other concern in the country engaged in the same line. One man who gets rebates, one man who reduces wages, one man who cheats in the quality of his goods, will force all others to do the same thing. The people who look on may not always see through the matter and may blame all the parties, when only the greedy mischief maker should be censured.



#### **W. B. LINCH, LINCOLN, NEBRASKA.**

Mr. Lynch is a native Nebraskan, was born in Cass county in 1866, assisted in the organization of the Farmers Mutual Insurance Company of Lincoln, Nebraska, in 1891. Three months after the organization he was elected secretary and still holds the position. His abilities are shown by the fact that the company now carries \$54,000,000 of farm insurance in Nebraska. At the third meeting of the National Association he was elected secretary and treasurer, and has since been re-elected seven times.

He is secretary of the Nebraska Mercantile Mutual Insurance Company, the largest exclusively mercantile in the state. He is also one of the board of directors of the National Mutual Fire Insurance Company of Omaha, and is also one of the auditing committee.



### **JAMES M. PIERCE, DES MOINES, IOWA.**

James M. Pierce, publisher of the Iowa Homestead, Des Moines, Iowa, and four other agricultural and rural newspapers and magazines, known collectively as "The Pierce Publications", has been a powerful factor in the promotion of Mutual Insurance among the farmers of the Middle West. When others have flinched or proven to be "fair weather friends" of the cause, Mr. Pierce has staunchly upheld the banner of Mutual Insurance, lending to its upbuilding the valuable support of his five periodicals, which have over a quarter of a million circulation among western farmers.

There are localities where the old line companies do not join in the attacks upon Mutuals. The two dwell together in unity and both are the better for it. But the flood of scurrilous literature concerning the Mutuals proves that there are companies which will stop at nothing to injure a weaker competitor. And it is stated that recently certain large life insurance companies of the east have been detected in instigating vexatious and injurious law suits against the weaker local companies in the middle west, with a view of causing them embarrassment. The companies adopting these tactics show by their works that they are insincere, that they do not believe the theory that they hold their position by virtue of the law of the survival of the fittest.

**IT IS DIFFERENT WHEN THEIR OX IS GORED.**

While the men composing these great concerns hold the doctrine that their own enormous acquisitions are the result of laws for which they are in no way responsible, they are far from holding such a theory regarding others.

Should their pastures be invaded, there is trouble at once. The law and the courts are invoked, legislative lobbies are organized and every possible method is resorted to that the interloper may be shut out. The let alone doctrine receives a practical construction which confines its application to their individual cases, an inconsistency born of dishonesty.

The war on Mutuals is carried on, not because of their system, but because they are generally small

and unable to carry on a protracted fight in court. It is a part of the struggle of the great trusts to crush out all that they do not control.

#### **THESE POSITIONS DENIED.**

The other class deny all these positions. They assert that the so-called laws of political economy are not laws at all, but merely tendencies, that the doctrine that there is a hard and fast necessity is not held by any of the great writers of political economy, that it is not true anywhere in the moral universe. They hold that no man is obliged to rob his fellow men, that those who combine to oppress the weak are enemies of society, that their millions are tainted and that their much vaunted benevolences are given, not to benefit mankind, but to purchase the silence of the recipients. They utterly and emphatically deny that wealth cannot be secured except by dishonest means, and affirm that the reverse of this is always and universally true.

Holding these views, and also holding that as the whole community prospers each individual will prosper with it, it is natural that the great army of co-operators and Mutualists should be found in accord with them.

The working out of these doctrines, of course, is in very different directions and leads to very different courses of action. If life is all a chain, the links of which are forged by an eternal necessity, nothing can be done; the link may be gold, let it rejoice; it may be iron, let it accept its condition; repining is useless, and why waste energy in trying to

change that which is unchangeable? This is the "let alone" policy.

But the other theory shows its nature by its works. Believing that all men are brothers, it organizes plans for mutual aid, it opens co-operative stores, organizes Mutual Insurance Companies, and in other ways brings men together with a view of enabling them to render assistance to each other.

#### **FRATERNALISM IS HONESTY.**

It needs no argument to prove that the very soul of fraternalism is honesty. The man who fails to do his share, be that share a contribution of funds, a performance of service, or whatever it may, is defrauding his fellow men. No permanent and prosperous organization of society or business is possible till all such frauds are eliminated. And no one who is not willing to live up to principle, and intelligent enough to recognize the true principle when he sees it, is a fit member of any co-operative organization. There are men who honestly think that they can pay their way everywhere. So long as they do not steal they morally give themselves a clean bill of health. But that is not enough. This is proven by the conditions of so many of our voluntary organizations. Men join lodges, churches, unions, etc., pay their dues promptly, but never attend. They would be grossly offended if they were told that they were offenders in this respect, that they were shirking their duties, and that they were putting upon other shoulders the burdens their own ought to bear. Yet, such is the fact, and till their moral senses have be-

come educated up to the proper point, till their mental vision is so cleared that it can plainly perceive these facts, the individual will fall short of the full performance of his duty.

The first effort of co-operators should be to develop and cultivate this sense of duty, to each other. It is not always through crime that it is absent; more often it is because the individual has never seen any real co-operation and is therefore in total ignorance on the subject. One of the best methods of accomplishing the desired end is to set forth to the world exactly what co-operation is. Many things need correct definition much more than they do correct arguing. Presented in the clear light of accurate description they are their own best advocates. This duty of explaining and advocating is itself not unfrequently neglected. It is to be hoped that the future may bring forth a change for the better in this respect.

#### **A THIRD THEORY.**

Beside the "let alone" theory and the co-operative theory there is still a third proposition, to put all men on a common level. This is impossible, for ignorance and intelligence cannot be held together even with chains of iron. Moreover, if it were possible the only common level is the dead level at the bottom. The true economy is that of co-operation, which has as its financial end the best possible service for the least possible cost, and for its social and moral aim the education and elevation of each individual to the highest possible position he can be made able to fill.

**PRACTICAL RESULTS.**

The morality of the individual and of the organization is affected by these conditions. An environment of temptation is conducive to evil. While some temptation seems to be necessary to exercise the moral fibre, and to prevent men from degenerating into mere weaklings whose virtue is due only to the absence of temptation, there may be conditions in which men are tried beyond their power of resistance. To avoid the possibility of this it is well to do away with temptation, as much as may be. And this is one of the services of co-operation. Each member, while dealing with others, is also doing business with himself. And why should a man defraud or deceive himself? And if services and goods are furnished at cost, why should there be adulteration or deception? As a matter of fact, it is claimed that in the places where co-operative stores are able to procure unadulterated goods they sell scarcely any others. This has been especially true of stores conducted on the Rochdale plan. Thus, habits of honesty are formed and gradually the tone of the whole community is raised.

It is not claimed that co-operation is available in all lines of business nor that none but co-operators are honest. No such sweeping claims are made. But the positions taken above are fairly and substantially true, co-operation is a moral force which acts for good on the co-operator, and on the community in which he lives.

## CHAPTER VII.

### WHAT IS INSURANCE?

Insurance is developed from a desire to break the force of the blow in case of loss. It first manifested itself as a form of sympathy for the unfortunate and some of the older Mutuals retain traces of this in such names as "The Helping Hand," "The Contributionship," etc. Commercial insurance began on the sea. Merchants were deterred from fitting out ships for voyages because they feared risking their entire ship and cargo.

Wealthy individuals, who met at Lloyd's Coffee House in London, in order to relieve the difficulty and encourage commerce, began insuring by making personal subscriptions of the amount each was willing to risk, generally not over \$500 to \$750, charging such premiums as were agreed upon. That practice is still kept up to some extent at the present day, but most of the business has fallen into the hands of large companies.

#### THE FUNDAMENTAL PRINCIPLE.

The fundamental principle is indemnity for loss, insurance which accomplishes more than this is either fraud or gambling. Nor can an illegal business or an unlawful enterprise be insured. Nor can in-

demnity be guaranteed in any case in which the public interest will be endangered. In days gone by, sailors were not permitted to insure their wages on the ground that this would tend to make them less careful in navigating the vessel. But now anything which does not contravene honesty or good morals may be protected by insurance in favor of those who have an interest in it. The words, "have an interest" are used because it is not the thing which is insured but the person. And because of this personal element insurance does not pass with sale of property. No one is allowed to insure that in which he has nothing at risk. There is scarcely anything which cannot be insured against loss from almost any cause, but the scope of this work does not extend beyond loss by fire, lightning and tornado and wind-storm, and to the loss of buildings and their contents, live stock and grain on farms, and similar risks, and the discussion must be kept within these limits.

As society developed, so did the forms of insurance. Two great classes came into being, the joint stock and the Mutual. The Lloyds still exist, but they form but a very small class. The joint stock companies which furnish indemnity for pay and at a profit and the co-operatives, or Mutuals, which furnish insurance at cost, practically cover the field.

#### COMMON DEFINITIONS.

A common legal definition, incorporated into the statutes of Maine and adopted elsewhere with some modifications, is: "A contract of insurance,

life excepted, is an agreement by which one party, for a consideration, promises to pay money or its equivalent, or to do some act of value to the assured upon the destruction, or injury of something in which the other party has an interest.” This is formal and complete. It expresses the general idea admirably. It brings out the fact that in all bona fide insurance there are these three elements: An insurer, something at risk, and a party having an interest therein.

It is more briefly stated thus: Insurance is a contract whereby one, for a consideration, undertakes to indemnify another if he shall suffer loss. Any contingent or unknown event, past or future, which may damnify a person having an insurable interest or create a liability against him, may be insured against, excepting those which are contrary to public policy, for example, chances in a lottery. But insurance upon that in which one has no interest is a wager in law and is legally null and void.

#### **THE ELEMENTS OF THE CONTRACT.**

Entering into the contract are several elements: The insurer who agrees to indemnify, the insured, the person to be indemnified, an insurable interest, and a contingent danger. By persons are meant either single individuals, or combinations such as partnerships or corporations, the legal sense of the word “persons” including them all. It will be seen that in each insurance contract one party insures another party against damage to some interest by an

unknown peril. The common expression—"A's house is insured" is not correct. It is not the house which is insured, but an interest in it. This explains why if he sells or mortgages his house the policy is void, his interest has changed.

An interest in property or relation thereto, or liability in respect thereof such that a contemplated peril might injure the owner directly, is an insurable interest. But one cannot insure that in which he has no actual interest based on actual ownership or on a valid contract for it, nor can he be insured for more than his interest in it.

All gambling insurance is void. There is one exception to the rule that a change of interest without consent of the insurer voids the policy. If the change occurs by the death of the insured the insurance still holds good, and passes to the person taking the interest, and in some states a transfer from one of the owners in a joint interest to another owner in that interest does not render the policy

These definitions are descriptions of insurance as a business transaction between two persons. The following describes insurance in its wider relations to the public.

"A common agreement among many different persons, that upon each paying a fixed sum into the common fund, the proceeds acquired shall be used to repair any loss which may befall any of the contributors." The fixed sum is the premium and this phrase, as well as the expression "common fund" renders the definition inapplicable to the Mutuals generally. Mutual insurance is "A common agree-

ment between many different persons that the contributions of the many shall be used to repair any loss which may befall anyone of the parties to such common agreement.”

#### **ANOTHER VIEW.**

Viewed from still another standpoint insurance against a loss is a means of breaking the force of the blow upon one individual by dividing it among many. That this was originally the intention is shown by the names of the oldest societies, “Hand in Hand,” “Contributionship,” “Helping Hand,” etc. These were all Mutuals. In fact there were no other than Mutuals till the development among the wealthy classes of that particular style of benevolence which feels itself called upon to take charge of the affairs of men of moderate means at a cost of “all the traffic will bear.” Since then the joint stock company has done the most of the business, and by fair means or foul has driven the Mutuals from many a field rightfully their own, and from which they should never have suffered themselves to be driven. But they have learned the old lesson that eternal vigilance is the price of liberty, and will not again be caught napping, and the Mutual phase of insurance is again the important one.

#### **INDEMNITY.**

Invisible, and generally intangible, indemnity is an abstract idea which many do not comprehend. There are persons who cannot see why, at the end of

a year in which they have had no loss they should be called upon to pay for this vague non-existence. At least, that is the way in which their mental process runs. But is indemnity a vague abstraction or an actual reality? The members of an insurance company agree to pay for all the property destroyed by fire during a year. They have a million dollars at risk and on the average pay in something less than four thousand dollars a year, or forty cents on each hundred dollars worth of property owned by the members. The sufferers by fire receive pay for their losses, but what have the others had? They have had just the same promise of remuneration that the losers had and it is to that promise that value attaches in the business world.

When a merchant makes a report of his assets for the purpose of obtaining credit, he finds in the blank which he is to fill out, a line "Insurance carried ....." and that is estimated in making up the amount which it is safe to credit him. So when a man procures a loan he finds that uninsured buildings are considered as very poor security but that the insurance policy will go at its face. This value becomes a reality in the cases cited as soon as the policy is issued. And if indemnity is thus a real something of value in getting mercantile credits and loans from banks and elsewhere it must certainly be worth something to the person insured. The safety which insurance affords against fire and storm, or to put it more accurately, the surety that the destruction which may come from these elements will

be paid for so that the insured will find his loss made good, is certainly not a mere barren ideality. It is something positive which can be comprehended. But how is the value of this indemnity ascertained? By experience, keeping records of losses for years until an average is arrived at which is correct enough for all practical purposes. Insurance, then, has nothing visionary about it nor is there any taint of gambling. It is simply a plain ordinary business proposition.

#### **CO-OPERATIVE OR MUTUAL INSURANCE.**

Co-operation, in its broad sense, is a joint action of any two or more causes producing a result. In mercantile circles the word applies to the harmonious and concerted action of men associated together for a definite purpose. But when used as synonymous with mutual it refers to organizations in which each patron is a member and receives back the entire profits on the business he brings to the organization. Its function is the distribution of wealth, that is, instead of permitting the profits on business to remain in the hands of a few stockholders, it distributes them among the general mass of customers who constitute the membership. Co-operative or Mutual societies are peculiar in their treatment of capital. They use capital in their business, they accumulate funds, they have stock and membership fees, but capital, as such, gets no share in the profits. If hired, it gets the current rate of interest, no more, no less. And the dividends are paid, not to capital

or to capitalists but to persons. The profits go not to the investment, but to the business. For example, in England the co-operative stores were started with a small capital subscribed by friends of the enterprise. Each of these shares was owned by a different individual and paid an interest of five per cent annually. But the profit all went to the owners in proportion to their purchases. And in dividing this profit, expenses and interests were first paid, the material in hand made good,  $2\frac{1}{2}$  per cent of the profits set aside for increasing the common fund, and the balance credited or returned to the patrons in proportion to their business. It must be borne in mind that the broad distinction lies between dividing the profits equally among the shares of capital stock, regardless of those whose business furnished these profits, and distributing these profits among the membership in proportion to their business without any regard to any capital which may be invested.

Some Mutual Associations, in their infancy, have been obliged to start with a capital stock or guarantee fund, on which dividends were paid, but they had a proviso that they might purchase the stock at any time at par value. And they bought it in as soon as they could. Many fraternal societies have erected their lodge buildings in this manner. This is an exceptional case and is only mentioned to show that Mutual Societies can succeed under very adverse circumstances.

**PROFIT SHARING NOT MUTUALISM.**

Profit sharing is sometimes classed with Mutualism or co-operation. This does not always hold good for while all mutualism is profit sharing, all sharing is not mutualism. The store which returns a portion of its profits to its customers as a means of increasing its trade and the factory which sets aside a portion of its profits as an addition to the wages, are not mutual, for in both cases the capital stock receives dividends and neither the customer nor the workmen have any voice in the direction of affairs.

This illustration will be sufficient to show that careful discrimination is necessary in deciding whether any particular organization is or is not entitled to be classed among co-operative or Mutual societies.

Mutual organizations are found in almost every line of business. Their methods of organization vary with their objects and their surroundings, but the principle of furnishing goods or services at cost is always and every where kept in view.

Some are managed by the co-operators directly, others by agents or managers employed for the purpose. The larger ones are generally handled by trustees or directors, many of whom serve for very small remuneration.

With regard to the capital employed, the differences are equally wide. Some have absolutely none, levying assessments from time to time as needed, while on the other hand many of the co-operative stores have enormous stocks and some of the older

Mutual Insurance Companies have large reserves. These accumulations of capital are justified by the fact that the reduction of cost which follows the advantage given by the capital will in time more than repay those who contributed it or from whose profits it was taken. A good illustration of this is furnished by the co-operative stores of Great Britain. They were all retail establishments for a long time till finally they accumulated the means to start wholesale stores of their own. These at once reduced cost materially and soon paid for themselves. So the New England Fire Mutuals, which have large guarantee funds, say that these have been the cause of reduced expenses and increased business, and no one thinks of giving them up.

In the matter of profits there is the settled principle that they belong to the membership but there are numerous methods of dividing them. Some Mutuals avoid profits, doing all Insurance at actual cost, paying no losses nor expenses till after they accrue, but most make a charge and return the unused portion as profits. Some charge current rates, others fix their own, some divide the profits annually and at stated periods make a supplementary dividend of the remainder.

Some charge membership or initiation fees, some require a stock subscription while others admit every one without preliminary charge. Some divide profits equally with every customer, others confine their distribution to those holding a paid membership. Others still have a differential in

favor of long standing and they shut out transient customers. The last is frequent among Mutual Insurance organizations.

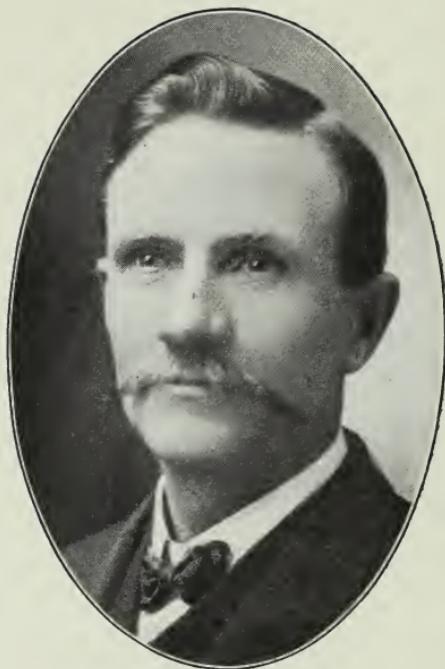
#### A REPETITION.

At the risk of some repetition it may be well to emphasize the fundamental difference between the joint stock and the Mutual companies. It is sometimes said that the one has stock while the other has not. This is not conclusive, as institutions may have a capital stock and yet be purely Mutual. The case of the co-operative stores illustrates this. There must be a stock of goods to start with and the funds to buy this are usually hired by the co-operators, who pay interest thereon. The fact that they generally advance these funds themselves and in amounts of fixed value, which they term shares, sometimes confuses people, but it should not. This capital is simply hired as they hire the building in which they do business; what they pay for it is charged up to expenses. They pay this stated amount whether the business is good or bad, whether the profits have been much or little. And this expense must be paid whether there are any dividends paid or not. In the joint stock company this is reversed. The customers get nothing. The expenses are first paid and the entire balance goes as a dividend on the stock, if there is no balance, then there is no dividend. The object of all this discussion is that people may be able to discriminate clearly between joint stock companies, Mutual or co-operative enterprises, and socialism.



#### **HON. E. M. COFFIN, LINCOLN, NEBRASKA.**

Mr. Coffin is prominent in the State of Nebraska, in fact he has made himself a reputation in many states of the Union. He is an authority on Mutual Insurance. He is the legal adviser of the national association and is also chairman of the legislative committee. He is president of the National Mutual Fire Insurance Company of Omaha and holds a number of other important positions. He is a hard worker and has won many important battles for the cause of Mutual Insurance for which he deserves the gratitude of the whole fraternity.



### **W. B. GASCHE, TOPEKA, KANSAS.**

Mr. Gasche is a native of Ohio. In 1895 he became interested in the question of Co-operative Insurance and was one of the leaders in organizing the Alliance Co-operative Insurance Company, one of the successful and progressive Mutuals of Kansas. In 1900 he was elected president and still holds the position. Since 1900 his company sent him to every annual meeting of the National Association, and is the Western member of the transportation committee of the body. He was largely instrumental in organizing the Kansas State Association of Mutual Fire Insurance Companies and has been president of that body since it started.

## CHAPTER VIII.

### THE AGENT.

The agent is one who acts for another. Among Insurance men the agents are those who solicit business for the company. Mutuals, whose territory does not exceed a few square miles, sometimes dispense with solicitors, but the great mass of Insurance business is brought to the companies by their agents, who secure it by personal canvass. Hence the character and qualifications of the agent, his abilities, his methods and his relations to the company all become questions of the greatest importance, and upon their proper solution, will depend, in most cases, the success or failure of the organization.

#### WHO HE IS AND WHAT HE SHOULD BE.

What kind of a man must the agent be? He should be endowed with unflinching integrity, good common sense, keen perceptive powers, a fair knowledge of men and things, and full control of his temper. He should stand well in his community, be able to make a favorable impression upon new acquaintances, and to be persistent without being annoying and be able to bring men to a conclusion without seeming to drive them. He should be well informed on the subject of Insurance in general and should

thoroughly understand the methods of his own company. He should have the by-laws and the policy so thoroughly at command that he can turn at once to any provision and explain it fully while the prospective member reads it. This will enable him to avoid the common error of quoting or reading too much. Men understand what they read themselves much better than they do what is read to them, and many an over zealous agent has lost a risk by reading so much that he has fairly overwhelmed the client. It is impossible to give full directions in such cases. Common sense and tact are the only guides.

Country farmers of good judgment and mature experience and possessing other qualifications alluded to, make the very best agents. But they must be sought after. Like first class men in any other line, they are not under the necessity of looking after employment, it comes to them. Moreover, they are scarce. And they are not cheap. But in the long run, they are the most economical. They give better satisfaction, avoid quarrels, reject undesirable risks and save in losses and expenses more than their extra cost.

Such an agent will never exceed the scope of his authority. All cases of doubt he will refer to the home office. He will solicit business for his own company exclusively, and will not dabble in other lines. He will do business in the customary way, following approved methods, never misrepresenting, always doing exact justice, and never getting his company into trouble. And when the application is

made out, his description will be accurate. Guess work he will not tolerate, but will measure in every case, and his reports will be practically adjustments in advance. He will finish up business as he goes and when he secures a risk it will be for all time. The policy holder will be a permanent customer of the company and the agent. Such a man will keep his eye on the best risks and will secure desirable members who could not be reached by the ordinary solicitor.

A bad agent is worse than none. The average farmer detests the man who refuses to work but picks up his living here and there in some mysterious way. To appoint such a man agent is almost equivalent to quitting business in his locality.

**HIS TRANSACTIONS MAY BIND THE COMPANY.**

A brief sketch of some late decisions will show the application of what has been said. The tendency is to make the transactions of the agent binding on the company, this rule being subject only to limitations common in all similar cases and which are supposed to be generally known by the public. This doctrine is very distasteful to many corporations and numerous are the shifts and devices by which they attempt to evade it. Various provisions are printed in the contract or policy which the would-be customer is obliged to sign, the purpose of which is to relieve the company from all responsibility for the acts of the agent. The courts have invariably ruled that these were null and void and have held

the company to a reasonable responsibility for the acts of the agent.

#### THE LAW--DECISIONS QUOTED.

Massachusetts has a law that "An insurance agent or broker who acts for a person other than himself in negotiating a contract of insurance shall be held to be the company's agent whatever conditions or stipulations may be contained in the contract or policy." This is in line with the decisions alluded to above. The principle enunciated is that a man cannot be agent for insurer and insured at the same time. But "Whether one acts as agent for the insurer or insured is to be determined by the circumstances of the particular case. One cannot be agent for both parties." See *J. C. Smith & Wallace Co., vs. Prussian Nat. Ins. Co.*, 54 At. Rep.

An agent of a Mutual Hail Company settled with an insured suspended for non-payment of assessment. He had no authority to adjust losses, but did so, taking note which the company retained. It afterward notified the member that an assessment for another year was due. Held that by ratifying the act of the agent, the company had restored insured to membership. *Barritt vs. Des Moines Mut. Hail and Cyclone Ins. Asso.*, 94 Mo. Rep.

Where the applicant answers the questions of an agent truthfully, and the agent, without his knowledge, and to aid in effecting insurance, modifies or falsifies those answers, the company is estopped from relying on the untruthfulness of the

description as a defense to an action on the policy.

Receiving and retaining a premium makes the company responsible. It should be returned or tendered to the policy holder if collected without authority by an agent.

In order that an insurance company may successfully assert that its agent has exceeded his powers in waiving conditions of a policy, the assured must have actual notice of the limitations placed on agent's powers, either by having his attention called to the stipulation of the policy containing such limitation, or otherwise. The constructive notice afforded by the circumstance that the policy contains the limitation is insufficient.

In general, an insurance company, being in possession of certain facts at the time of issuing the policy, in case of loss is estopped from taking advantage of those facts. If the agent knows those facts the company is generally supposed to know them also.

The Minnesota Supreme Court decided that the company was liable on a policy having no gasoline permit, for a loss from fire arising from the use of gasoline, because the agent knew it was used.

#### **MUST BE PROMPT.**

An agent should finish up business promptly or at least get it committed to writing. A's policy expires Friday noon. He notifies the agent the day before that he wishes to renew. The next day that agent is called away and leaves word that it will be

all right. Before he gets back A's building burns. The company claims that A overstepped his authority, a law suit results, the company is beaten, but the policy holder is out an attorney fee.

A large proportion of insurance law suits originate in just such affairs as the one supposed above. In fact there is no more prolific cause of quarrels than the same habit of half doing business, and then putting off the other half to a more convenient season.

#### **RESPONSIBLE IF HE WORKS FOR WORTHLESS COMPANY.**

An insurance agent must use reasonable care to avoid defrauding his patrons. As it is within his power to ascertain the standing of any company by writing to the Insurance Department of the State in which it is located, he is without excuse if he sells a policy in a worthless company. The New York Weekly Underwriter says: "Edward C. Beirne, local fire insurance agent at Port Jervis, N. Y., issued a policy of fire insurance from a Chicago 'wild cat' company. The property burned. The 'cat,' as usual, refused to pay. The property owner sued the agent, whose defense was that he acted as a broker in good faith, believing the company solvent. The appellate court would not accept this plea, nor the New York Court of Appeals. The agent was held responsible for the insurance with interest and costs. The same doctrine has been held elsewhere.

Two late decisions, one in Iowa and one in New York, have thrown light on the responsibility of the

agent. In each case an insurer effected insurance in several companies, an agent making the division. In each case there was a loss and in each case one of the companies was an irresponsible "wild cat". The insurer brought suit against the agent who claimed that he was only a broker and not responsible. The court, however, held differently and brought in a verdict against him. This seems reasonable. That an agent is bound to use reasonable care to avoid representing a fraudulent company or selling worthless goods, is consonant with common sense. In justice, the agent and the employer are mutually responsible for each other, and to each other, and the agent is more responsible because the assured trusts everything to him.

**RESPONSIBLE FOR HIS CLERKS.**

Courts will hold the agents responsible for what is done in their name. They must look after their clerks as other business men are compelled to do. An agent for a "wild cat" in Minnesota procured power of attorney from the assured, authorizing him to purchase insurance wherever he could. Held that under that power of attorney he had a right to purchase insurance where he chose. It would seem that in this case the power of attorney made him agent of the assured rather than of the company, and shifted the responsibility.

**PEOPLE SHOULD SEE THE AGENT'S CERTIFICATE.**

People ought to know something about the men they deal with. There is very little excuse for a man who is defrauded by a bogus agent or a "wild cat" company. The agent should have his certificate and be called on to show it. The standing of the company can be learned by addressing the State Superintendent of Insurance, for no commissioner will issue a license to an agent for a "wildcat."

**WILL STUDY HIS BUSINESS.**

The agent, who wishes to be as effective as possible, will study his own business thoroughly; he will know all about Mutuals in general, and his own company in particular. He will understand its principles. He will make a study of other methods that he may be able to show the advantages of his own. He will be watchful and learn all that is going on and will report to the company all cases that he does not fully understand, and will call for decisions on law points and for statistics whenever he needs them.

He will study the community and when he finds a good risk that is not insured in a Mutual, he will ascertain why. To do this requires skill and tact. Some men will inform the agent the first time they fall into conversation, others need to be asked, and others still, need to be treated as if the agent did not care. There are not a few people in this world who will tell everything they know if one only gives them time and asks no questions.

In doing this, agents are only acting as do other business men. If a grocer, for example, discovers that he gets no trade from a certain family, he does not rest until he learns the reason and whether the trouble can be remedied. That is just good business, and the agent should follow the example. In these modern days, trade does not come of itself, the rustler gets it. It is not sufficient to have a good thing, the people must be told of it. Advertising has become a necessity, and whether by signs, circulars, newspaper articles or in whatever method seems fit, the man who gets business must somehow advertise.

#### **WILL COVER HIS TERRITORY.**

The good agent will also thoroughly cover his territory. He will look after the risks carefully, omitting none. This will be profitable to himself and the company. He will secure a permanent good will and as he rides over his field will seldom make a trip during which he does not call upon several men. By the exercise of a little care he can make appointments with those at a distance or in out of the way places and thus save himself much time.

The agent should keep a record in which are noted the particulars of every policy, such as the amount, the date and the expiration, together with such private memoranda as he sees fit to make. The courts have decided that this book is the private personal property of the agent, to be disposed of by him or retained, as he desires. Such a book in time acquires a value in use. It is a great convenience to the agent. He will be able to keep a close watch

upon expirations and anticipate the action of competitors for business.

The agent should look after new buildings. They are generally excellent risks. It is well for him to be on good terms with the carpenters and builders and also with the lumber dealers. He can get valuable information from them.

## **HOW TO SECURE GOOD AGENTS.**

### **MUST GO AFTER THEM.**

The officers of the company must go after them. This is generally the work of the President or Secretary, but the Directors can render efficient aid. First class farmers make the best agents. The company should select such men in localities where they wish to have agents, and then secure their services by personal solicitation. In fact, the company gets an agent about as an agent gets a risk, it locates him first and then, at an opportune moment, makes the contract. There is room for exercise of discretion here. While the farmers are generally the best, there is a class of energetic young men who teach in the winter, and busy themselves about something else the rest of the year. As they often have from four to seven months out of school, they have ample time to canvass for the company. Occasionally one of them who has a home of his own and teaches in his own neighborhood, makes an ideal agent. And now and then there are men already in business, who can be induced to take the interests of the company in charge. But as previously stated, these men will

not come of themselves, the company must go after them.

In securing agents it is well to bear in mind that the trend of modern decisions is toward making the company responsible for everything that the agent does and says, and that a man who cannot be trusted that far is not desirable as an agent. The Mutual standard for agents is high, very high.

The agent should never forget that he is the company so far as most policy holders are concerned. He transacts all the business; they trust everything to him and expect fair treatment. If he fails in this respect, he will lose business for himself and for the company. Attempts have been made on the part of various organizations to evade the force of this, but without avail. It is just that it should be so. Otherwise, the policy holder would be making a contract binding on himself and on nobody else, with all the rights on the side of the company and none on his own.

#### **MUST HAVE COMMON SENSE.**

Men are expected to exercise common sense and to know how to transact ordinary business, but in special lines they must rely largely upon the representations of those with whom they are dealing. It is so in Insurance, it is so in every day transactions. Agents should remember this and be careful never to misrepresent or mislead in the least.

After all the various plans for the prevention of incendiaryism are considered, the honest agent, who will not over insure, is the one effective remedy.

**ARE NECESSARY.**

It is frequently proposed that Mutuals shall dispense with agents and that the soliciting be done by the members of the company. Human nature is not generally so constructed. In rare cases, in small communities, the plan is feasible, but generally it is a failure. The agent is a necessity at present.

**MUST LOOK AFTER THE RECORDS OF APPLICANTS.**

Agents should be particular in looking up a man's record. If a would be policy holder has been moving from place to place and has had several losses, it is well to turn him down. Sometimes it may be necessary to demand references, especially when the amount of insurance desired seems large.

When the Fire Marshal laws of the several states are perfected the professional incendiaries will be detected and their descriptions will be furnished to the Insurance companies and their careers will be ended. Meanwhile agents should be on their guard against them.

**HOW SHALL THE AGENT BE PAID?****THREE PLANS IN USE.**

There are three common answers to this question: By a fixed salary, by a fixed fee on each policy, or by a commission. Each of these methods has its advocates. It is claimed that the salary plan is the best because it presents no temptations to wrong doing. The agent gets his pay without regard to the

amount of business, hence he will not take risks where the moral hazard is great, nor will he over insure. This is true in theory, but in actual practice it will be found that if the commissions on the business he brings in do not amount to very nearly his salary, his services will be dispensed with. It is so in all departments of business. In the great retail establishments of the larger cities it is becoming a custom to discharge clerks unless their sales are so large that their salaries fall below a certain per cent of the profits. So while the salary plan seems to be the ideal, it is generally only the commission method in disguise.

#### COMMISSION.

With regard to the commission plan of remuneration, it is argued that it stimulates the agent to more diligent effort and objected that it is a constant temptation to the agent to take bad risks and to over insure. Both of these positions are correct and it depends upon the integrity of both company and agent what the result shall be. If the company is greedy, it will wink at the misdeeds of the agent and there will be any amount of illegitimate business. If the company is reputable, it will compel its agent to do a fair business though the agent and the policy holder may juggle together to swindle the company and sometimes with success. When both the agent and the company aim at fair dealing, it matters very little whether the agent is paid a salary or a commission.

**FIXED FEE.**

There are many experienced Insurance men who advocate paying a fixed sum for each risk. One of the most successful Mutuals in the United States says: "The method of obtaining business is entirely different from that of stock companies, inasmuch as the agents of the Oregon Fire Relief Association, instead of receiving a commission on the amount of each risk they write, receive a fixed fee which is the same whether they write a risk for \$100 or one for \$1000." The reason for this is obvious, it eliminates the tendency on the part of the agent to over insure where over insurance is desired.

"This one element in the business method of the association has in no small measure contributed to the remarkable reduction in the loss ratio compared with the Stock Companies."

In Wisconsin, where the Mutuals have been pre-eminently successful, nearly all the city and village Mutuals pay a percentage commission, but of the hundred and ninety-nine Township Mutuals reported Dec. 31, 1903, only three pay a percent commission. Of others, a few have no agents, a few pay a per diem, but the greatest number pay a fixed fee per application or policy.

Statistics from other states are lacking, but the expense account seems to indicate that the commission plan is generally followed. In many cases the companies have been in existence several years, and have old, well tried and faithful agents. With these the method of renumeration makes no difference,

the agents will do good work. In all such cases it is well to be very slow in making changes. The whole question is more a matter of men than methods.

#### **SALARY.**

And yet, it seems to be very generally true that among Mutuals which confine themselves to single territories or within narrow limits, the commission system is scarcely known. The members do the work gratuitously, a modest per diem is paid, or a flat rate per policy. As the field of the company widens out, the commission comes in until, in the larger cities, there is no other method. The old line companies established this precedent and the Mutuals must follow it for the present.

As has been remarked the environments often govern. In the local Mutual where "everybody knows everybody" and much work is done gratuitously, the question is easily solved; in the large companies, whose field is several counties or even a whole state, the problem is much more complicated. But in either case is there any method which will make a bad man honest, or a knave, sincere?

The following from section 30, Insurance Laws of Massachusetts, while not of general application, shows how the legislature views the commission plan so far as its influence over agents and other officers is concerned:

"No officers or other person, whose duty it is to determine the character of the risks, and upon whose decision the application shall be accepted by a Mu-

tual fire company, shall receive, as any part of his compensation, a commission upon the premiums, but his compensation shall be a fixed salary, and such share of the net profits as the directors may determine. Nor shall such officer or person aforesaid, be an employee of any officer or agent of the company.”

### **IN CASE OF LOSS.**

#### **DUTIES OF THE AGENT.**

The agent shall look after the interests of the company and while he represents the whole membership and is employed by them, should treat the loser fairly and even liberally, and thus gain friends and patrons for the company. He should impress upon the loser that the company is ready and willing to pay all losses, only requiring the same proof of loss that would be required by any ordinary business men. It is well enough to congratulate him on this fact, but the agent should not fix the amount of the loss nor lead him to expect a large sum. When the joint stock agents come around and tell the loser that he will never get a cent, as they often do, the agent should make a note of it, and when the loss is settled he should get a written statement of the fact, and that statement should be kept before the old line agent henceforth and forever.

#### **TRIFLING LOSSES.**

Trifling losses the agent may be permitted to adjust himself, and sometimes in cases where there

can be no possible dispute he may be employed to settle the matter; generally, an adjuster should be employed. And if the agent has been scrupulously careful in drawing up the policy, the work of the adjuster will be much easier, and there will be almost a certainty of satisfactory settlement.

#### **TALKS WITH TOUGH CUSTOMERS.**

These talks are such as may take place at any time in the average town and among average men. The agent is supposed to be an upright, honorable man, respected by his fellow citizens and in the business for all the commission he can legitimately get out of it. He has studied the subject of Insurance and is familiar with it. He knows all about his own company, and has its by-laws at his tongue's end. He is a resident of the community and is acquainted with its citizens and since taking up the business of Insurance he has studied them somewhat carefully with a view to securing their patronage.

With the everyday farmer and business man he has no difficulty. He finds most of them insured, some in Mutuals and some in joint stock companies. He manages to learn when their policies expire, and in due time is on hand with proposals for renewal. He goes after the best risks first, secures the men whose judgment is respected and whose example is followed, as soon as he can, but turns down all doubtful and extra hazardous risks. In short, he works to build up a permanent business which shall afford him an income for years to come.

Generally he has no trouble. He gets along easily. But now and then he meets with a tough case, something entirely out of the ordinary.

#### **THE MAN WHO DOES NOT BELIEVE IN INSURANCE.**

First comes Mr. A., an excellent man, a model citizen living in a fine house a few miles out of town. He does not believe in Insurance. He is industrious, always busy, and does not like to be annoyed by agents and candidates when he has anything to do. So the agent waits for his opportunity. He makes it convenient to ride past Mr. A.'s home occasionally and engages in conversation with him when he meets him in town. He discovers that he is proud of his home and devoted to his family. Not a word is said about Insurance and when he passes Mr. A.'s home, a friendly nod, or a cheery "Good Morning" is all that is permissible.

But one day, after harvest is over, he sees Mr. A. leaning on the fence. Now is his chance. He drives up and accosts Mr. A. After the usual salutations he says: "Mr. A. you have a lovely home here, it must have cost you a lot of hard work to get things in such good shape." "Yes," replies Mr. A., "I did have to work hard." The conversation runs on in that line for awhile, the agent talking of the beauty of the home, its convenience, and how the family must enjoy it after all their hard work. The agent soon sees that Mr. A. made that home for his family and directs the conversation accordingly. To talk to Mr. A. about saving himself from pecuniary loss

would be idiotic. So he praises the comforts and conveniences of the home and before long the two are on good terms and ready to talk to each other.

Finally the agent says, "Mr. A., this is a beautiful home, you must live a happy life here. It would be a pity to see the result of so much toil and labor burn up, and yourself and family deprived of all these comforts and all the work to do over again." Mr. A. replies, "There is no danger; my family and myself are careful people, we never have accidents. Besides that, I don't believe in Insurance." The agent replies, "Yes, Mr. A., you must have been very careful people to have gotten things in such nice order, but somehow, our experience as Insurance men teaches us that fires do sometimes occur in just such cases. In fact, it is an old saying that it is the unexpected which happens. Looking at it from your standpoint, I should say you would never have a loss. Looking at it as I see it now, I should say that a loss is exceedingly improbable, but the experience of the companies makes a different showing."

Then the agent draws from his pocket a list of losses paid by the company and shows it to Mr. A. Some of the names may be known to Mr. A. If so, the agent can take advantage of it. The agent then says, "Probably few of these were quite as careful as you, but all felt confident that they would not have a loss. In fact some of them seemed to feel that insuring was throwing money away. But they had fires, nevertheless."

Then the agent takes another list from his pocket. He has taken trouble to go to the local newspaper offices and to look over the files for two or three years past and get a list of the fires occurring in the county during that time. He has ascertained the value of the property destroyed and the amount of Insurance thereon. This list he reads over to Mr. A., emphasizing the cases in which there was no Insurance. When he finishes, he says, "Now, Mr. A., would not you sleep a little sounder in that lovely home of yours if you were assured, that, if in some mysterious manner, and by no fault of yourself or family, it should burn, they would be saved from the hard labor necessary to make another home as good?"

Then he produces one of the inquiry blanks used by the great commercial agencies when they wish to ascertain a man's standing, and shows him the question "How much Insurance carried?" Then he says: "You see, Mr. A., what the business public think of Insurance. They do not regard it as tempting Providence, or as gambling, but as an act of ordinary prudence. They do not doubt the carefulness and good intentions of men in general but they know that fires do come, and not unfrequently originate in causes thought to be thoroughly guarded against."

The agent goes on pressing hard on the facts shown by the statistics he has, that fires do occur, that carrying one's own risk has been disastrous in many cases, that the public look upon Insurance as

an act of ordinary business prudence, that Mr. A.'s family would suffer if a loss occurred, and that a reasonable Insurance would shield them from harm, etc. Possibly he will not get Mr. A.'s application at the first visit. He may deem it best to leave some circulars for Mr. A. to look over before coming to a final decision.

But the agent has done several things. He has supplied himself with all the facts and figures, next he has cultivated the acquaintance of Mr. A., then he has gotten on good terms with him and lastly he has tried to show Mr. A. that it would be to the interest of his family to insure.

The agent is also cautious to avoid contradicting Mr. A. He does not desire any head end collisions. That would spoil everything. He does all prudently and carefully, with no haphazard or guess work. He also appeals to the highest motive, Mr. A.'s love for his family. If he had driven up with, "Well, Mr. A., I came out here to insure you." If he had said, "It is not good business to let so much property go unprotected" or used any similar expression, he would have closed the case against himself at once. Or if he had failed to have the necessary statistics, his success would have been more than doubtful. But, by doing the right thing at the right time, Mr. A. will probably be won over, and if he is, many of his friends will follow, and in the future, a list of commissions will loom up which will more than pay for the time he has expended on this case.

**THE MAN WHO DOES NOT LIKE ASSESSMENTS.**

Next comes Mr. B. who does not like assessments. The old line agents have discovered this and loaded him down with circulars. The agent meets him and gets into conversation. "I like everything about your company except those assessments. Guarantee me against assessments, and I will give you my business." In the states where the all cash or cash deposit methods are possible, Mr. B. can be accommodated at once. Explanation is made that the advance premium is so large that there is no possibility of using it all, and that there will be an unused balance returned to him at the end of the term. But in some states this cannot be done. A premium note must be taken or the pure assessment method adopted. The agent explains these methods, shows the records of the company, and expatiates upon the cheapness and safety of the Mutual methods. "But I want a company which never assesses." "Very well, the old line companies never assess, neither do they give you a share in the profits."

Then the agent takes a list of actual cost of Insurance in that locality for the past few years in both stock and Mutual companies. He shows it to Mr. B. and explains the workings of the Mutual plan, that it is the best and the cheapest. He shows that for several years the cost of assessment has been below the rate demanded by the joint stock companies. Mr. B. admits the cheapness, but says, "I want a company that does not assess. I don't want to put a mortgage on my property if it is only for five dol-

lars." In some states the best way to answer this is to produce a copy of the Insurance laws of the state, and show him that there is no liability beyond the face of the note. In other states, it might be best to ask him if he had ever heard of a policy holder in this company who gave a note being compelled to pay more than the face thereof.

Having settled this, the agent says: "Mr. B. nobody ever heard of you refusing or neglecting to pay a debt, yet you give notes in other transactions, why not in this case?" Mr. B. repeats that he does not like assessments and does not want to give a note.

"Well," says the agent, "let us look at this mortgage business a little more closely. You always keep everything paid up and your assessments would be no exception. That note would be non-negotiable, would be worthless in the hands of any body else but the company. With your policy expired and your last assessment paid, the note and the policy will die together. Did you ever see one of these Mutual Insurance notes recorded in an abstract of title as a lien against any property?" Mr. B. does not remember that he has.

"I will tell you why," says the agent. "If you should sell the property you know that the Insurance would become void so far as you were concerned. Now the note dies with the Insurance, except the assessment you happen to owe. That is all the note would cover and all which could be collected. In

your case there would be no trouble about that. When it was paid the balance of the note would be returned to you."

"But," says Mr. B., "I have heard of men who have sold out being followed up and sued." "Mr. B., when a man runs away owing you, don't you follow him up and collect if you can? Isn't an assessment an honest debt?" "Of course." "Well, when a man tries to defraud us, what are we to do? Can we do justice to our members if we do not bring delinquents to time? Now all these things being true, where is the danger of giving a note which you intend to pay, which you are willing to pay, or at least so much of it as is required? How can it possibly work you harm?"

Mr. B. has been holding something back all the time and now he lets it out. "Lawyer X. told me that if I joined a Mutual on the assessment plan, I would be liable for all I am worth, and if the company failed to pay any one who had a loss, he could sue me, and collect it and I could not help myself. He said he had supreme court decisions to show."

The agent knows perfectly well that the lawyer lied, and is tempted to say so, especially if, as is often the case, the lawyer is an old line agent. But he keeps his temper. "Mr. B. did you see those decisions?" "No, but he said he had them." "Did he tell you when and where they were rendered?" "No." "Did you ever hear of them before?" "No."

"Well, Mr. B. I do not claim to be a lawyer, and I do not know much about law, but I have heard of

these decisions before, but I have never been able to see them. I have never found any one else that has. Mr. B. you know something about business partnership, joint stock concerns, etc.?" "Yes." "Well, have you seen partnerships wound up?" "Yes." "And joint stock concerns?" "Yes." "Well, when a partnership is wound up, is it not true that all the partnership property must be exhausted before the members of the firm can be called on, and then they must be assessed pro rata at first and so on, each paying his full share as far as possible?" "Yes." "Is it not true that in case of a bankrupt joint stock company the property of the company goes to pay the debts, and when that is used up, it is only in rare cases that there is any further liability and then only to an additional amount equal to the stock held? Mr. B., if all this is true, can it be true that in any organization any one man is liable to any other one man for all that he has? Don't you see that the settlements must be made pro rata, and not as that lawyer told you?"

Mr. B. will probably say nothing to this. The agent then goes on. "You know many of the members of this company. After years of experience, their own and others, they have found that their losses and expenses have never exceeded a certain rate. For the sake of absolute safety, they have put the premium note still higher. They have never needed the full amount of the notes. Now as a man of experience, of observation, and of judgment, tell me what are the chances that you would be called on

individually to pay a loss? What are the chances that such a suit as was spoken of by Lawyer X. ever came off or ever will come off?"

Many policies contain stipulations to the effect that there shall be no liability beyond the face of the note, and these stipulations are taken from state laws. When this is the case the fact can be pointed out to Mr. B., and it can be explained to him again that the note is put high enough to make it absolutely sure that he will get his pay in case of loss.

Many companies work purely on the assessment plan. In these there is no question about a person's liability beyond the pro rata share. Such a thing was never heard of. The agent should be prepared with statistics showing the rate of assessment in his company as far back as possible. These ought to convince Mr. B. that the bugaboo which has frightened him is a lively imagination interested on the anti-Mutual side. If the agent has time, he can correspond with headquarters and get all the facts. These he can show to Mr. B. His key note in all this talk is to show by general observation of ascertained facts that Mutuals do not assess in the style charged against them, and that they do pay their losses; in short, that they are successful in the business world, and entitled to credit for having succeeded.

#### **THE MAN WHO DOES NOT WISH TO BE SWINDLED.**

Then Mr. C. comes to the front. He does not want to be swindled. These Mutuals are not to be trusted. He has suffered himself. This objection

presents itself in different shapes at different times. Sometimes Mr. C. is noisy, and tries to draw the agent into a quarrel. The agent keeps his temper and in time learns the whole story. He writes it out in full, giving names, dates etc. and then sends it to the company, and they in turn investigate it through the state and national organization.

That he has been a member of a genuine Mutual which failed to pay its losses is hardly probable. The committee have made diligent inquiry for such Mutuals and have so far discovered but one, and it is doubtful if that made any trouble. Cases have come to light in which companies were organized by professional sharpers, who collected the fees and assessments till the first loss occurred and then absconded with the funds. In other localities, men have appeared claiming to be agents for Mutuals, having policies, etc., in due form, who canvassed for Insurance and collected considerable sums of money. After gathering in what they could they left. When the first loss occurred a letter to the address given on the policy, came back, "uncalled for," and further inquiry revealed the fact that such a company never had been heard of at the post office or any where else, in short, that the policies, etc., were forgeries from beginning to end. These are the usual methods in which people are defrauded, and there would have been very few of them, had state officials been faithful in doing their duty.

If Mr. C. has actually lost by the failure of a genuine Mutual, and is abusive, the only thing to do

is to avoid him. To argue with him would only make the matter worse, and a street quarrel would degrade the agent in the eyes of the community. The only thing for the agent to do when he comes near Mr. C. is to avoid him, and if he opens up his batteries of abuse, make no reply. This will soon break the force of his attacks. When Mr. C. is quoted by some one whose business the agent is soliciting, the statistics can be produced to show that his was a very unusual case, that the Mutuals have the best record, even if Mr. C. did have bad luck, etc. If the agent solicits people at their homes, he will be in no danger of a personal conflict with Mr. C. and will have a better chance to present the arguments.

If Mr. C. does not make any attack, but just refuses to patronize a Mutual, the best way is to treat him kindly, never attack him, never deny what he says, not attempt to condone the wrong, and it may be that in time he will soften down and become friendly.

If, however, as is more probably the case, Mr. C. has been swindled by a bogus company, then the course to be pursued is entirely different. At first, as before stated, the agent is to keep quiet, but when he has ascertained all the facts and reported them to headquarters and has received replies, he is ready for action. In the case supposed at first, it would be better for him to avoid public meetings, now an encounter in a crowd is just what he wants. He gives Mr. C. an opportunity to attack him, and stands quietly until he has exhausted himself. Then it is

his turn. "Mr. C. did you say you were swindled by a Mutual (giving its name and post office)?" "Yes." "Well, Mr. C. here are some letters about that case which may be of interest." Then he reads a letter from the state superintendent of insurance, saying that he never heard of such a company. He has another from the secretary of the state organization, and he knows nothing about it. The county treasurer writes that it is not on the tax roll and never has been. The post master says nobody knows anything about it.

Then he goes on, "Mr. C., who was the agent who took your application? Did he have a license like this? (showing his own). Was he an acquaintance or a stranger?" The agent has now fairly turned the tables on him. Mr. C. will probably try to say that the agent is accusing him of falsehood. "Oh no," the agent will reply, "You have paid your money and gotten your policy, but these letters which I have read show that your policy is a forgery. The agent was no agent but just a common scamp. You were swindled, that is all there is to it. Do you know why people counterfeit bank notes? I will tell you. It is because the bank note is worth its face value, and that is why this fellow counterfeited a Mutual Policy, because Mutual policies are worth their face. Here is a list of losses we have paid which goes to prove it." And then he distributes his circulars through the crowd. Mr. C. will probably continue to sputter but his power for harm is gone.

This fraud is sometimes perpetrated by a single individual and sometimes by two or three working together. In either case the course of the agent is the same, to investigate thoroughly, arm himself with proper proofs and then expose the fraud publicly. If necessary, publish the correspondence in the local newspapers. While such encounters are unpleasant, the agent cannot afford to have his business destroyed by continued misrepresentation. If the agent will take the pains, he can prepare himself so that he can avoid trouble from all these cases. He may not be able to get their business, but he can silence their opposition.

#### **THE MAN WHO DOES NOT LIKE MUTUALS.**

This man does not believe in co-operation. Mutuality has no charms for him. He has but two objects of worship, first the potent and almighty dollar, and second, the man who owns the most of said dollars.

The agent approaches him and mentions Mutual Insurance. "Oh no, Mr. Agent, you have mistaken your man. You may succeed in duping country farmers and such people, but I am a business man and we business men have studied these things and we know the facts. We know that your ideas are visionary. Why, you are nothing but a lot of cranks." "You think so?" "Yes, I know it."

"Mr. D., you are familiar with the early history of the country, you know something about its public men. What do you think of Benjamin Franklin?"

Was he not a good business man? In fact, was he not the practical man of that age?" Mr. D. admits that at once. "Well, Mr. D. did you ever hear of his Mutual Insurance Society?" "Why, no, what did he have to do with Mutual Insurance?" "He started a Mutual Insurance Society?" "Well, what if he did?" "Why, one of the best business men of that age was a believer in Mutuals, he started the first Mutual in the United States. It was called the Philadelphia Contributionship, and it is running on the same plan yet. Now you would not call a business which has been running successfully for a century and a half visionary, would you?" Mr. D. will probably have nothing to say to this and the agent should be careful not to crowd him.

The agent goes on. "You heard of the Baltimore fire?" "Yes, and all the Mutuals are gone and gone forever." "Oh no, Mr. D. we saw that in a joint stock paper, and we wrote to the Commissioner of Insurance. Two of the seven Mutuals went into hands of a receiver, and four out of the eight joint stock companies of Maryland failed. But the company that paid with the least trouble was the Baltimore Equitable, a Mutual started more than a hundred years ago. Now that does not look visionary, does it?"

The agent waits a moment, then goes on, "The fact is, Mr. D. most men are busy. I know that you are very busy. You have one rule which you can apply in this case, and that is, that which succeeds must be practical. Now the Mutuals have the figures

to show that they do succeed, and that they do save money. Have you ever heard of the failure of a genuine farm Mutual, I mean a failure to pay in full. Sometimes, too many Mutuals are started in the same territory, and some of them retire or consolidate. I do not mean this, but a failure to pay losses, a bankruptcy?" Mr. D. has never troubled his head about such matters. "Well, Mr. D., I am ready to show you official figures to prove that such failures are almost unheard of, that the business record of these societies is better than that of any other class of commercial institutions in the country. Now if I prove that, and then show you that they offer cheaper Insurance than any other, will you consider it visionary to give me your business? Now you know a good thing when you see it. What do you say to this?"

Talk along this line may win. Genuine business men like pluck, they like to see a man push his business and will not get offended if he does. The tactful agent will probably make a friend, if he does not get the business.

The business man who has become suddenly rich by some stroke of fortune, or by swindling his neighbors, is generally too self conceited to be easily approached, and too ill mannered to talk with. While it is the duty of the agent to go after all business, he may be permitted to make an exception in that case and let the man alone.

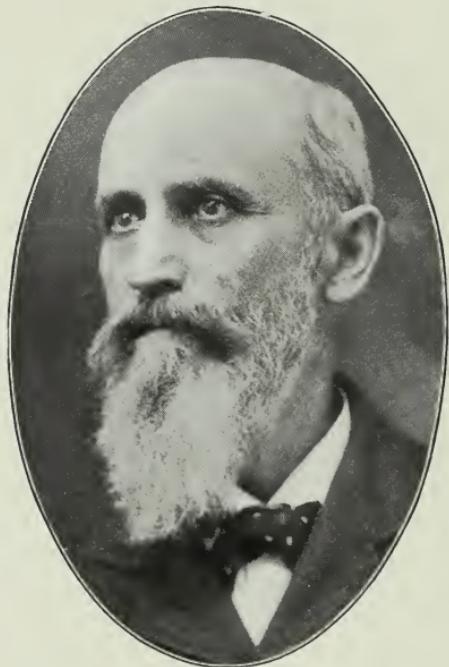
#### **THE MAN WHO DOES NOT LIKE ANYTHING SMALL.**

Now and then the agent meets some one who does not believe in Mutuals because "They must



### **M. G. L. ROBERTS, CHATTANOOGA, TENNESSEE.**

Mr. Roberts is one of the successful men of the South. He is the pioneer Mutual Insurance man in his state, president of the United States Fire Insurance Company of Chattanooga, a most prosperous organization and the only one financially able to go on a legal reserve basis and still have a net surplus over all liabilities, re-insurance reserve included. He is also at the head of other important business enterprises, member of the Georgia Society of Chattanooga, a charter member of the Chattanooga Historical Society—in fact is active in all lines of public usefulness.



**F. D. BABCOCK, IDA GROVE, IOWA.**

Mr. Babcock is secretary of the Grain Shippers Mutual Fire Association of Ida Grove. This does a state business and is increasing its risks very rapidly, although it exercises great care to avoid all which are doubtful or undesirable. He was the organizer of this Company and has been a leading man in Mutual Insurance in Iowa for many years.

fail, sir. Nothing can succeed in circumscribed territory. No sir. A single state is too small a field. An Insurance company to be safe must operate widely, must draw its patronage from the whole country. Your Mutuals cannot live. They are too small, sir, too small, sir!"

The experienced agent has run against this snag more than once. It is one of the standing arguments of the larger joint stock companies, not only against the Mutuals, but against the smaller joint companies. It is really the business creed of the trust. They have been active in propagating it and it is astonishing how many people have accepted it without thought. This man is sometimes too large to talk to anything less than an international company. But perhaps he will listen. If so, the agent says: "Well, Mr. E. you own a nice property out there in the country (but Mr. E. is never a farmer). I should like to insure it. Our company has total assets so much, total risks so much, that is so much of assets to a hundred dollars of risk, a greater percent than most of your so-called strong companies have. Moreover, those large companies have greater amounts bunched in the dangerous districts of Chicago, St. Louis, San Francisco and other cities. If a hundred million dollar fire should occur and the company should be obliged to sell large amounts of stocks and bonds on a low market, you could not tell what the result would be. But look at our company. Our largest risk is \$3,000. We have no two risks exposed to each other, hence the worst fire can only

cost us \$3,000, and that would make us no trouble at all. If we are a small company, we have scattered our risks till they are smaller in proportion to our ability to pay them than those of the great companies. Hence, we claim we are safer." Lists of losses, etc., may be produced and all available statistics may be used.

Possibly he will consider an appeal to his financial interest. Probably he will prefer to boast that he is insured in the largest company in the country, even though he has to pay heavily for the privilege.

All of these characters, and possibly others will be encountered by the active and energetic agent. And for all of them he must be ready. He never knows when he starts out in the morning, what he will meet before he returns. He should pick his man and go after him. Firing at a flock for general results is a poor way of hunting. Each time he wins a patron will make it easier to win the next.

#### OLD LINE AGENTS AND HOW TO TREAT THEM.

Many old line agents are honorable and courteous. There are also some who are destitute of principle and decency. They will try to provoke quarrels. The Mutual agent should avoid these as much as possible. If he solicits his customers in their homes or places of business, he will generally be safe from interruption. Above all, the Mutual agent should avoid doing business on the town street corner where he will be surrounded by a gaping crowd.

But he should be on the guard against wilful misrepresentation. The old line agent will not be

slow in approaching the Mutual man, and from this the agent can learn what is going on. He should secure copies of all circulars distributed and send them to headquarters. He will get replies and these should be distributed. If the old line agent says he has adverse court decisions and says so to his face, let the Mutual agent take out pencil and paper and say, "Now just give me the volume and page of that decision." If he says he has it at his office, then the thing to do is to offer to go with him and look at it. If he says he saw it somewhere else, then let him tell where. The Mutual agent should never stop till he has pinned the other man down. The result will be that he has either no decision touching the case, or else has misquoted something. If the agent can learn in advance what the joint stock man asserts and correspond with headquarters, he can be fully prepared to meet anything and everything.

#### THE MAN WHO IS FRIGHTENED.

This man is one who has already insured but who hears so much about Mutuals that he is beginning to regret it. He is startled and worried by the talk until life becomes almost a burden. He can be made very useful, and well satisfied at the same time. The opportunity will come when a large fire occurs, in which the company is interested. The news will get to his ears. "Told you so," says the old liner, "Your company is busted, your Insurance is gone and you will have to pay a big assessment. You ought to have taken my advice," etc., etc.

He meets the Mutual agent. "Say did you hear of that big loss over there? Can the company pay it? How much will they assess me?" The agent replies, "Yes, I heard of that loss, the company can manage it. Your assessment will not be heavy." (In some companies the assessment is made in advance, here the agent would use different language). The policy holder shakes his head. "Well," says the agent, "Did you not get one of our last reports?" He produces one and reads the list of losses. "Now you see, here is a long list of just such losses, they were all paid, and there was no trouble about it." So he leaves him, telling him not to be troubled.

A few days pass by and the assessment comes. It is but a moderate sum. He hunts up the agent. "What's this?" "Your assessment." "To pay for that loss?" "O, no, that pays for several losses, not very heavy it is?" "No, that's all right, but will it hold out?" "You wait and see. The agent gets the loss receipt and shows it to his timid friend. "The company is all right, I'm satisfied," and off he goes to tell the story to every man he meets. He will do any amount of good advertising for the agent and the company.

The shrewd agent can very frequently use such men to turn the tables on his opponent and gain friends and business for the company at the same time.

#### THE MAN WHO WISHES TO ARGUE THE CASE.

In every community there is an individual who always wants to argue. He is contrary because

Mother Nature made him so. He is "agin it" no matter what the "it" happens to be or how he stood the last time he argued that same question. His stock in trade consists of tricks and catches and his great delight is to badger some honest man for the amusement of a gaping crowd. He is proficient in his line, and is expert in getting the laugh on his opponent. He is a good illustration of the old saying that any fool can ask questions that a wise man cannot answer.

This man is dangerous only to those who argue with him. The agent must avoid that error. He must be treated civilly, answered courteously, but not allowed to discuss matters. In conversing with such a man the art of saying nothing and saying it well is a valuable accomplishment. The best way of meeting him is to turn the tables on him by asking questions about some other matter. Let them come thick and fast so that he will have no time to advance his own ideas. Not a moment should be allowed him in which to argue. As a rule the men who spend their time disputing have no business worth going after and the best course is to get rid of them as soon as possible. A volley of questions is pretty sure to put the enemy to flight.

**THE MAN WHO DOES NOT UNDERSTAND INDEMNITY.**

Occasionally the agent meets a man who says, "I have been insured for ten years. I have never had a loss. You have never paid me a cent. My

Insurance has not cost you a cent. I don't believe in that kind of business." Or perhaps he will refuse to pay his assessments on the ground that as he has cost the company nothing, he owes them nothing.

Such men are often perfectly sincere and should be treated fairly and candidly. The agent should endeavor to convince them that after all they did have something of value. It is best at first to avoid the use of technical terms, such as "indemnity," etc. Begin with simple language. "Well, Mr. G. it is true that you have received no money from the company, do you regard what you paid the company as a dead loss?" "Of course, it is, any fool ought to see that." The agent should keep his temper and give the man a minute or two to think. Then he may say, "Mr. G. several of your neighbors are insured in this company. One or two had losses, did not the company pay them promptly?" "Oh, yes, of course." "Then the company lives up to its obligations." "Yes, it pays its losses." "And if others had burned out it would have paid them also. Then these others were safe from loss if they had burned out." "Yes, I suppose so." "Did not your neighbor X buy a farm not long ago?" After the agent has talked a while about the new farm he asks, "Did not Mr. X. have to give a mortgage for part of the purchase money?" "I believe so." "And give a Fire Insurance policy in addition as part security?" "Yes." "Then this Fire Insurance policy enabled Mr. X. to buy that farm?" "Yes." "Well, if it helped him out that much was it not worth something to him,

even if he did not have a loss?"

"Well my case is different, I did not buy any farm." The agent at this point should refer to some improvement made or some expenditure of Mr. G., and then say, "Mr. G. you spent that money wisely. But suppose that while your Insurance policy was in force your house had burned, the company would have paid your loss would they not?" "Oh, Yes." "And the fact of the loss would not have interfered with the expenditure you made." "I suppose that is so." "And if your house had burned without Insurance you would have had to take that money to rebuild another instead of expending it as you did?" "Yes." "Well, then the Insurance made you safe?" "Yes." "Well now Mr. G., isn't that safety worth something even if you did not have a loss? If, as you said a while ago, your neighbors who are insured are safe, if Insurance made Mr. X.'s credit safe, if it made you safe, wasn't it worth something to you after all? You pay for enjoyment, for comfort, was it not actually worth something to you to know that you were safe?" "Well maybe it was, but how do I know how much it was worth? I can't see it yet."

"Well Mr. G., things are generally worth what they cost. The members of this Mutual have combined to make each other safe as far as they wish to be. Every kind of property has been kept account of, and what it costs to insure each kind is figured out very closely. The company knows what it costs and each man pays that cost and no more. In other words, the losses of property by fire and storm are

averaged on the whole property insured and that is the cost. The assessments you paid are just what it cost to make you safe. Now, was it not worth that much to you? Would you be satisfied to let your property go uninsured and take the risk yourself?"

Perhaps Mr. G. will take the ground that those who had losses should pay their assessments but that the others do not owe anything. If he still adheres to this opinion the agent may say, "Well, Mr. G. the company cannot pay out any more than it takes in, can it?" "Of course not." "Then if those who do not lose, do not owe anything and only the losers do owe, these losers are the only ones who should pay an assessment. Don't you see this would simply be making the losers pay their own assessments, in effect, paying their own loss, and that they would have no safety whatever?"

Argument along these lines will generally convince reasonable men. But the agent must remember that there are many men who are slow to comprehend the idea that anything invisible, which cannot be counted nor weighed can have a cash value, that this safety or indemnity is worth something in money, that the purchaser thereof has received benefits for which he should pay. Patience and forbearance will work wonders in such cases.

#### THE FALSIFIER.

A new industry has been started lately by some ingenious joint stock people. Their emissaries travel over the country ostensibly engaged in some

canvassing business, but at every farm house where they stop they make it a point to deliver a long lecture on the short comings of the Mutuals. It is unnecessary to say that their statements are pure fabrications. If the agent warns his customers in advance such people will do no harm. But on no account should the agent enter into dispute with them. Let them work out their own affairs and the more the agent ignores them the better.

It is sometimes provoking to meet the villainous calumnies of the enemies of the Mutuals. But vituperation in reply will accomplish no good. Official publications are legitimate and should be used in favor of the Mutuals, but the "you're another" style of argument should never be indulged in. Let the opponents of the Mutuals have the monopoly of that kind of talk. Above all things the agent must keep his temper. No matter how indignant he may be at the personal abuse or the malignant misrepresentation of his assailants, he must keep cool. To get angry is to lose his advantage.

#### **INSURANCE AT COST.**

The Mutual Insurance agent should keep before the people the idea that the end and object of his company is to furnish Insurance at cost. He should explain that cost is ascertained as time passes and cannot be accurately ascertained till the close of the term. He should be provided with facts and figures to show exactly what the cost has been in different cases. If he can get a few cancelled notes which have expired and show that the credits thereon leave

a good balance to be returned to the policy holder they will be evidence which cannot be contradicted. They will enable him to show, in each case, exactly the amount paid by the policy holder.

These facts and figures will furnish the answer to a question which is frequently asked, "Why does your company charge such high rates?" The fact should be brought out in clear relief that it is not the note which he signs but the part which he pays which interests the policy holder. If it costs a man \$30 to insure a \$1,000 risk for five years, it does not matter whether he signs a note for \$30 or \$300, the \$30 is all it costs. The balance is returned to him.

When a cash payment is made it is placed to the credit of the policy holder, and only that which is used is retained. The company returns the rest as a dividend. The principle is the same whether cash or notes are used.

It is becoming a custom to charge rates high enough to cover all possible risks. In some states the companies still hold the rates of fifty or a hundred years ago. The mill Mutuals of the east illustrate this. Their dividends are not unfrequently ninety-five per cent of the amount of cash payment. If the agent will keep the average cost before the policy holder, these questions will not trouble.

#### BROKERAGE AND RE-INSURANCE.

The agent must inform himself on these subjects. Illustrations will show the different conditions. If a risk of \$10,000 is offered to the agent,

the limit of the company being \$2,000, there are several courses. He can take \$2,000 and let the owner look after the rest. He will see of course that the proper permission for concurrent insurance is inserted in the policy and that his company is fully informed concerning the whole transaction.

He may take the whole \$10,000 and turn it over to the company which will re-insure the \$8,000 excess. In both cases the responsibility of the agent is confined to one transaction and one policy and no more. He is not accountable for the concurrent insurance placed by the policy holder, nor for the re-insurance by the company. There is a third course. He may agree with the policy holder to place the whole \$10,000. He will then insure \$2,000 in his own company and place the balance in other companies as best he can. In placing the \$2,000 he is agent for his own company with all the rights, duties and responsibilities that pertain to the position. But in placing the other \$8,000 he becomes a broker and his position is entirely different. He is then the agent of the policy holder, if he fairly represents the conditions of the property to the insuring companies his responsibility is at an end.

Though the doctrine that a man cannot be agent for both parties is well established, the case cited below holds that the application of the rule must be confined to matters of the same import. In this case, the court holds that for the purpose of procuring and canceling policies the man was agent for the insured although agent for the company at the same time.

The force of this decision is that he had the right to cancel policies and that policies issued through him to the insured were binding. That is, he was agent for one party for one purpose and another party for another, but not for both parties for the same.

#### LAWS AND DECISIONS.

“In a suit on a policy of Fire Insurance the proof showed that a previous agreement existed between the president of the insured corporation and an Insurance agent that the corporation’s property should be kept insured. No particular Insurance company or companies were mentioned, and the corporation’s president gave no concern to that matter. He made the Insurance agent his agent for the purpose of selecting the company or companies, and, pursuant to the arrangement, the agent, without notice to the president, cancelled a policy in one company and substituted therefor a policy in the defendant, and mailed it to the president of insured before the fire occurred. Held, that the agent, though the agent of the Insurance companies, was made agent of the insured for the purpose of procuring and canceling policies, and defendant’s policy was in force.” *Phoenix Ins. Co. vs. State, to Use of Saline River Shingle & Lumber Co.*, 88 S. W. (Ark.), 917.

#### STATE LAWS.

There are in many states laws defining the status and duties of agents. For violation of these laws there is generally a penalty. In order to avoid both the transgression and the penalty, the agent should

always act fairly, avoid dealing with unauthorized companies and never put off business which can be closed up. While making no attempt at an exhaustive treatise, a few cases may be given and a few laws cited which will give an idea of the application of these principles.

Arkansas says that "Any person who shall hereafter solicit Insurance or procure applications shall be held to be the soliciting agent of the Insurance company or association issuing a policy on such application, or a renewal thereof, etc."

Connecticut includes surveyors among agents. The broker is also mentioned in some codes.

The object of these definitions seems to be to include all those who transact business for foreign companies, and to fix a liability in cases of fraud or misconduct.

Maine has a rather stringent law. "An agent authorized by an Insurance company, whose name is borne on the policy, is an agent in all matters of Insurance, any notice required to be given to said company or any of its officers by the insured may be given to such agent, any application for Insurance, or valuation or description of the property, or of the interest of the insured therein, if known by said agent, is conclusive on the company, but not upon the insured although signed by him, and all acts, proceedings and doings of such agent with the insured are as binding on the company as if done and performed by the person specifically empowered or designated therefor by the contract."

The pith of all these laws is that the man who induces another to insure in any company is the agent of that company and the company is responsible for his acts. At the same time he must exercise reasonable diligence to assure himself that he is working for a legitimate company.

An agent is responsible for sub-agents, also for his clerks and book keepers. This is a well known maxim of commercial law.

In some cases this responsibility is far reaching. If an application for Insurance is given to an agent which he cannot take and he turns it over to another who places it, but collects the fee himself, he is liable to be held as the agent of the company which issues the policy, although he had no direct communication with them. But this is good policy. Men must be responsible for what they do. The agent is like the man who shoots, responsible for his bullet, no matter where it goes or what it does. But the assured is also bound to use common sense, and common prudence in all such cases.

Nearly all courts have held that latent restrictions upon the authority of the agent of which the insured has no knowledge are not binding upon a policy holder.

Minnesota has the following law, "Any person who solicits Insurance and procures the application therefor shall be held to be the agent of the company thereafter issuing the policy upon such application, or a renewal thereof, anything in the application or policy to the contrary notwithstanding." This law

puts a stop to the practice of printing in applications for Insurance, loans, etc. in some obscure position and in microscopic type "and constitute him my agent." This was generally overlooked by the applicant, but when a dispute arose the applicant was sometimes led to believe that it was binding on him.

If an agent cuts a rate without authority from the company he is liable for the balance of the premium. (See *Continental Ins. Co. of N. Y. vs. Clark, et al*, 100 N. W.).

The acts of an agent performed within the scope of his real or apparent authority are binding upon his principal. The public have a right to rely upon an agent's apparent authority and are not bound to inquire as to his special powers unless the circumstances are such as to put them upon inquiry.

There are several decisions along this line. The principle is general. The idea seems to be that, as among policy holders the great mass are entirely ignorant of the laws relating to agencies, but generally accept what an agent does as representing his principal, no advantage shall be taken by means of secret instructions or other evasions. The tendency is toward making principals completely responsible for their agents, and for all their acts.

The representations of an agent to the insured must be full and complete. If otherwise, he may be held to have waived what was not mentioned. And so in the other case, if the agent performs certain acts he may be held to have waived any objections to the conditions precedent to such acts. If there

are several reasons why the company objects to paying a loss, etc. and the agent states only one, he may be held to have waived the others. It is not asserted that the company will be held liable in these cases, but only that it may be, and it is best for the agent to avoid all dangers.

#### **MAXIMS.**

The same principle applies to the acts of the agent. Failing to do the right thing at the right time, may act as a waiver. The agent should scrupulously avoid parol or verbal contracts. Everything should be reduced to writing and signed as soon as possible.

The following maxims will apply to all Insurance transactions.

1. Always adhere strictly and accurately to the facts.
2. See that the applicant reads and understands the application, the by-laws and the policy.
3. See that the descriptions are full, clear and exact.
4. The powers and authorities granted by the company to the agent should, under no circumstances be transcended.
5. In case of loss or damage the agent should inform the loser that the company will pay all just claims, but should not estimate the amount of loss, nor act as adjuster without authority.
6. All doubtful questions should be referred to headquarters.

The agent who lives up to these maxims will never come in conflict with the laws.

**GIVE FULL DESCRIPTION.**

The location of insured property should be plainly and clearly set forth. Buildings should be accurately described and lot and block numbers should be correct. When errors occur, courts will order the policy reformed to comply with the intention of the contracting parties. But it is much better to avoid trouble by giving full and accurate descriptions. Generally, if the insured can show that he intended to insure a certain property and that he pointed it out to the agent who took due notice of his act, the courts will hold the company, even if error should be found in the description.

While there is very little trouble about buildings, merchandise, household furniture and movable property generally may raise questions not so easily disposed of. The courts have not always followed in line, and some decisions have added to the confusion. To begin with, there is the famous sealskin case. A sealskin garment insured as in a certain dwelling house was taken elsewhere for repairs and while in that place was burned. Held that it was covered by the policy. On the other hand a hack or vehicle insured as contained in a certain stable is insured or not when elsewhere depending somewhat on the courts. Three courts so far have held that no liability attaches when in a shop for repairs. Two,

so far, have decided that the words "contained in" merely indicate the ordinary location of the vehicle and that the company was liable when the vehicle was destroyed by fire in a shop at some distance.

Linen, insured as part of household goods contained in a certain building, was not covered by the policy when hanging on the clothes line.

A harvesting machine insured during operation and in transit is not covered while standing still.

Differences in the wording of the policy may account for a few of these cases but there are also inconsistencies.

To avoid all such perplexities it is well to see that the descriptions in the policies are made to express just what is intended. In the sealskin case if it was intended that there should be no risk except while the garment was in the building, it should have been stated that the policy was in force only while the garment was in said building.

In the case of the vehicle the same is true. The matter should have been clearly stated. In the harvester case it is plain that there was an omission. The machine was insured when running, and while moving from place to place, but the policy contained nothing about the risk while standing still or while it was stored for the idle season.

The agent and the company also should be careful to see that the policy covers just what the policy holder desires. In some of the cases alluded to it is probable that the loss took place under circumstances

not anticipated by either the insurer or the insured. In others, the policy holder was evidently not aware of the omission.

#### GIVE FAIR DESCRIPTIONS.

In the interest of fairness as well as of avoiding trouble the agent should see that the application and the policy cover the risk as desired by the policy holder. In the case of the harvester, the agent should have called attention to the fact that the machine was not insured during the idle season. The company would have profited by it in the long run.

There is an old saying, "Let the buyer beware," meaning that he must take all risk of his own lack of business knowledge and of the agent's errors in filling out the policy. This has no place in Mutual dealings. A fair contract, understood in the same sense by both parties, is the only true Mutual Insurance.

These should be avoided, and also any other matter which may relate to or change in any manner the printed terms. The careless remarks of Insurance officials are a source of endless trouble. Verbal permits by agents, if within the lines of their duty, bind the company, and not unfrequently they hold even when in conflict with the policy. It is not worth while to quote authorities to show just what the agent may say and what he may not, the broad principle that he shall commit to writing all agreements, permits, or other matters of business, will keep him safe. If he violates this he is almost sure to get into trouble.

**HINTS ON ADVERTISING.**

Mutuals and Mutual agents must advertise. It is not a question of inclination, but of duty. If they can benefit their fellow men they are in duty bound to make the fact known as widely as possible. This statement needs no proof.

How shall Mutuals advertise? They should use the same means employed by all other business establishments. Circulars, pamphlets, signs, advertising novelties, newspapers, all these are good. Effective advertising does three things, it calls the attention of the people, tells them precisely what they wish to know, and adheres to the exact truth.

Evidently the first requisite of general advertising is to be attractive. In circulars, pamphlets, etc., neatness and style are important. The heading or the title should be neat and conspicuous. Everything coarse, "loud" or vulgar should be carefully avoided. Too much ornament is also bad. Neat and simple circulars, pamphlets, with attractive covers, novelties which are useful as well as new, are all available and a reasonable use of these will pay. They are generally furnished by the company.

The local advertising is done by the agent. This is confined to the distribution of matter furnished by the company, and to advertisements and reading matter inserted in the local newspapers. Here is the opportunity for a shrewd agent. A fire occurs in the county. If in his company, he watches matters and when it is adjusted he gets the certificate of the loser

that he was paid in full and is satisfied. This is the best kind of an advertisement. It gives confidence.

If the loser was insured in some other company, or not at all, the merits of the agent's own company should be set forth, and some certificate of loss from another locality may accompany the matter if deemed best.

These advertisements of whatever kind should always give the information the people ask for. The agent will remember the questions propounded to him, and if he answers those he will get up good matter for the company. What one man wants to know, the others generally ask about, and will read about. It requires some judgment to do exactly the right thing at the right time, but a little practice will render one quite expert.

Above all, and over all, advertisements must be exactly and strictly truthful. To impress on the customer the facts just as they are is always good policy. To do anything else is unsafe. Supposing an Insurance contract to be made on the basis of a deceptive advertisement, in case of suit the jury would assuredly consider the fact in construing the contract.

But no matter how, when or where the advertising is done, it must be done carefully. A slovenly or carelessly written notice is offensive. Circulars scattered without discretion are wasted, but judicious work will pay and pay well.

**MUTUAL AGENCY RESPECTABLE AND PLEASANT.**

In closing this chapter, it may be remarked that the unpleasant cases alluded to are the exceptional ones. The agent will find his position respectable and his work pleasant. The great mass of men with whom he comes in contact will be fair and courteous. There are no more disagreeable complications in the Mutual line than in any other. Unreasonable men are found everywhere. Happily they are in a very small minority. Rascals are still fewer, though they do sometimes trouble. And further, the Mutual agent who has selected this line for his life business will in a very few years get beyond and above these tormentors and where he will be entirely out of their reach. And then there will be few positions which will be more desirable than his.

## CHAPTER IX.

### THE ASSESSMENTS.

#### THE BASIS OF MUTUALISM.

The basis of Mutualism or co-operation, and without which there can be neither Mutualism nor co-operation, is that each shall pay his just and equitable share of actual cost. In a Mutual company there is neither stock nor stockholders to draw dividends at the expense of the insured, but every policy holder is a member entitled to a voice in the management and a share in the benefits. The assets of a joint stock company belong to the stockholders, the policy holder has no other interest than the safety of his Insurance. The possessions of the Mutuals belong to its policy holders. The joint stock company has very little trouble in fixing its rate, it charges all it can, and, as in many other lines of business, that is the simple solution of the whole matter.

Not so with the Mutuals. How to collect the funds required to pay expenses and fire waste in the manner least burdensome to the policy holder is not an easy question to settle. The word "assessment" itself conveys this idea, it means literally a "sitting down together" hence, a thorough consideration. There are broad differences both in theory and in practice. There are Mutuals which collect in ad-

vance for the full term of the policy, returning the unused excess in the shape of dividends, annually or otherwise, as may be convenient. At the other extreme, there are Mutuals which carry absolutely no funds on hand, assessing on the occasion of every loss. Between these extremes there is a bewildering variety of methods, the outgrowth of the circumstances which surround the several companies. Each organization seems to be satisfied with its own management, and all seem to work together smoothly. However the funds are raised, they are, nevertheless, assessments. It matters not whether they are collected all at once, in advance, annually, or as needed to pay accrued losses, they are sums levied to cover fire waste and expenses, and not fixed charges for indemnity. They are sums based on certain carefully ascertained needs, and not prices limited only by the competition of the market.

#### **WHAT IS A VALID ASSESSMENT?**

Under these circumstances, in the Mutual field, the assessment becomes a matter of the first importance. It must be levied (1) by the proper authority, (2) for the proper purpose, and (3) in the proper manner. And the notices to the policy holder must be legal.

The authorities in these matters are (1) the laws of the state in which the company is located, (2) the by-laws of the company itself, (3) the rulings of the courts in cases which have been decided, and (4) the ordinary and usual business practices.

The statutes of many states are silent on the matter. In those, the by-laws of the company will govern.

A valid assessment is one levied in exact accordance with the laws of the state and the by-laws of the company. Every provision is observed, every technicality complied with, the proper condition authorizing the levy being shown to exist at the time.

#### STATE LAWS.

Most of the states have but few provisions.

Illinois has somewhat elaborate provisions. The president shall convene the directors, etc. In the case of live stock companies, in the absence of a quorum, the president, secretary and treasurer shall estimate the rate percent necessary to cover the loss, etc.

Maine places the whole matter in the hands of the directors.

Massachusetts provides that the directors shall manage the business and that assessments shall be made from time to time.

New Jersey directors may assess over and above the amount required not to exceed 20 per cent of deposit note.

These are sufficient to illustrate.

The second authority is the by-laws of the company. Generally these provide that the directors shall levy the assessments as well as manage the details.

Great care should be taken that the officials should be able to show conclusively that all the provisions of the statutes and the by-laws were fully and fairly complied with. The records of the meeting at which the assessment is levied should be complete and in proper form. When the publication of notice is required, a copy of the affidavit of publication should be filed as part of the records. And after all this is done, the ordinary business rules and customs and the constructions of the courts must be carefully observed. Technicalities must be avoided as much as possible. They increase risks. When possible, such business should be transacted at regular meetings. The chance of irregularity in calling a special meeting will then be avoided.

The assessment must be for a purpose within the provisions of the state laws and also of the by-laws. As there are over two thousand Mutuals in the United States, the variety of usage is beyond the range of discussion.

#### CHARTERED AND OTHER COMPANIES.

And there is still another class of companies. In Connecticut, and perhaps some other states, each company has a special charter from the general assembly or legislature. Any attempt to discuss them would be a failure, for they have very little relation to the subject in general. Each company looks to its own charter for its guidance.

Among the so styled "Cash Mutuals," which are numerous in the eastern states, and among the class Mutuals which make annual settlements, and also in

some other forms, which collect for the full term in advance, the question of assessments changes its form. The estimate of expenses and fire waste is, in many instances, made for years at once and the whole amount is paid in when the policy is issued. In this case there are no forms of notice to consider. The amount to be returned to the policy holder, as profit or dividend, is the one which receives the careful attention of the directors.

Nor is the question of reserve a disturbing element. As these reserves are generally more an evidence of good faith and ability to pay than anything else, they may be counted in as part of the necessary expenses for which the levy is made.

A Vermont decision that "A member of a Mutual company is presumed to know its by-laws, and is bound by them, they being on the same sheet as the policy issued by it to him, and attention being directed to them in the body of the contract" is important only where such a form of policy is used, and even then a jury might disregard this.

#### WHEN TO LEVY ASSESSMENTS.

There is no general rule. Some companies levy assessments after each loss, raising only the amount actually required; others assess when ten percent is required to pay losses and others still make annual calls. In the two cases last mentioned the companies borrow to meet the payments due on losses in the meantime. Others still, whenever an assessment is required, call for a little more than is needed, hold-

ing the small surplus until it is exhausted. Then there are those which assess in advance, either as the directors think advisable or annually; and finally, there are those which call for the whole premium in advance, returning the unused portion in the shape of dividends. All of these methods are advocated, each having its partizans who show proofs of its usefulness. The different methods are used in different localities. The old settled farming communities of the western states assess after a loss, and in order to avoid too frequent assessment, borrow to pay small losses. Where the population is changing, the annual advance assessment is the favorite, while in the east, the cash in advance plan is very popular though by no means universal.

The arguments of those who only assess after a loss, are that this plan entirely prevents the accumulations of funds in the hands of the company, that the money remains in the hands of the policy holder until it is actually needed to pay losses, and that there is no loss of interest. Those that borrow argue that frequent assessments are expensive and wasteful, that while the member has to pay his share of the interest, he has had the use of the delayed assessment as an equivalent and the saving in the expense of assessments is a considerable item. These arguments are conclusive in the case of those companies which do business in a limited area, and among people whose residence is permanent, and where by a process of continual selection they have eliminated the moral hazard. There are cases in which every insured member is known at headquarters. They

are doing all the business they care to do, and such occurrences as default in assessment, dropping out while in debt to the company or making a fraudulent claim are entirely unknown. But such forerunners of the millennium are all too few. The greater number of companies do not do business with such exceptional constituencies, which have reached their high plane only after years of effort. In the average company it has been found advisable to use some method which will secure it from loss if a member should allow his policy to lapse for non-payment of assessment. In case of sale of property or of change of residence, men are often careless about transferring their policies to the buyer or having them cancelled, and the first notice the company has is the return of its notice of assessment. If the company fails to collect, it loses. But where the company assesses in advance, in case of failure to collect, it cancels the policy without loss and that ends the matter. Sometimes small membership fees, or policy fees, are charged in addition to make it absolutely sure that the member cannot leave the company in its debt.

#### **ADVANCE ASSESSMENT.**

The cash in advance, or rather the full advance assessment, plan is in favor with lodges, churches and all bodies whose business is transacted by boards of trustees or directors. These find it inconvenient to meet on the occasion of every assessment and prefer to deposit in advance to cover the probable cost during the life of the policy, receiving its unearned

portion as a dividend at the expiration of the term. This is actually nothing more than depositing in the hands of the company, a sum to be drawn on as assessments are called for.

There is still another class which collect in advance and never assess at all. Nearly all of these companies are located in the eastern states. Their rates are high, but they return large dividends, 20, 40 or 60 per cent, according to the time the policy runs, giving the long term an advantage. Besides this, most of them make an extra dividend in such a manner that each five-year policy holder gets back whatever he has paid in over the actual cost of his Insurance.

Most of these companies carry strong reserves, too. This is done to meet the competition of the old line companies, which never tire of tooting their horns about the surplus which they carry on hand. These Mutuals are successful. Among them are some of the oldest and strongest Mutuals in the country.

In all these the Mutual principle is strictly observed, for each member pays his share of the cost, and no more. The method of collection cuts no figure at all.

#### **LEGAL NOTICE OF ASSESSMENT; WHAT IT IS.**

This is a question which especially concerns the Mutuals in cases of assessment. Statutory enactments require Mutual officials to notify all members of assessments levied, and to collect by legal means from those who neglect or refuse to respond. Fail-

ing to perform this duty, they are themselves held responsible. Litigation may occur when the holder of a suspended policy, having a loss, claims that he had no notice of assessment, and also when a collection is resisted on the same ground.

Service by mail is the only practicable method, and in many states this is established by statutory enactment, in others it prevails by custom. The service is complete when the notice is deposited in the postoffice, properly directed and duly prepaid, i. e., the official has done all that there is for him to do. Such service should be proved by the affidavit of the party mailing the notices.

#### **PROOF OF SERVICE.**

In some states there is no prescribed form of proof, in others the affidavit is set forth in the statutes. In Kansas, for example, Section 3490 of the Revised Statutes of 1890 says: "After publication of such notice of assessment and the service of such upon each member by mail postpaid, directed to him at his postoffice as written upon his application for Insurance," etc. In all such cases the affidavit should conform strictly to the statutes.

The following affidavit is from forms appended to the Insurance laws of New Jersey. It was intended to apply to notices to stock holders but is of general use.

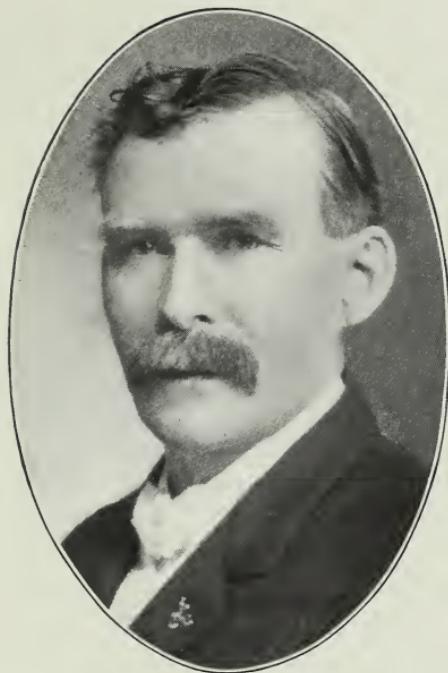
"I, carefully and in person, compared the names and addresses on the said envelopes with the books of the said company and can swear of my own knowl-

edge that there was a separate envelope addressed to each member of said company in the United States. I deposited these myself, personally in the postoffice at ..... on the ..... day of ..... nineteen hundred and ....."

Such an affidavit relieves the company and its officers from personal responsibility but in case of suit in a distant court, a jury might hold that a process sufficient to release an official from further responsibility still fell short of what was necessary to hold a delinquent. A shrewd attorney would not find it difficult to convince a jury, already inclined to favor a neighbor against a "foreign corporation" that the testimony that the notice had not been received was ample proof that it had not been mailed, that there was a blunder at headquarters. A verdict against the company would be sure to follow. In bringing suit it is unsafe to rely solely upon the mailing of the notice. Where the statute or form of notice uses the word "postoffice," depositing the notices in a mail box will not answer. They must be put in the postoffice.

#### **A SAFE PRACTICE.**

Fortunately the troublesome class is extremely limited. Men insure for protection and will generally respond to an assessment at once in order to keep their policy good. But there are others, some are careless, occasionally some one desires to avoid his obligations. Sometimes a man sells out and then attempts to evade his assessment, and some men will



### **JOHN J. FURLONG, AUSTIN, MINNESOTA.**

Though a native of Ireland, Mr. Furlong has lived over forty years in Minnesota where in the early eighties he began a career in the State Legislature. About this time he was one of the organizers of the Mower County Mutual Fire and Hail Insurance Co., and was for many years and is now its president. He is also treasurer of the State Cyclone Mutual Insurance Co. and was vice president of the National Association. He has been very active in public life but has a model stock farm which is his pride. His is a life whose motto, "Keep busy and you will be happy," is practically exemplified.



### **J. C. McMANIMA, SPRINGFIELD, MISSOURI.**

J. C. McManima was born in Ohio of Scotch-Irish parentage and as a young man went to Iowa, thence to Dakota in 1884. He took an active part in politics, and was the last territorial auditor of Dakota. He moved to Springfield, Mo., in 1894, and has been engaged in literary work much of his time since 1877. He established the "Policy Holder" in 1897.

not take from the postoffice anything which they suspect contains a dun. As the officials are often obliged to deal with these men in court, they must have indisputable proof of service of notice. In case the first notice receives no reply, a second should be sent, and it should be registered. If received and receipted for, the evidence of service is complete. If returned as not delivered, the matter should be investigated still further. The postoffice regulations concerning returned matter say: (Sec. 672-7) "All request, card, or official matter of any class returned to sender must bear upon its face the reason of such return as 'Refused', 'Removed', 'Present address unknown', 'Deceased' 'Unclaimed', 'Cannot be found' and must also, in every instance, be endorsed 'Returned to Writer', and bear the postmark of the office from which it is returned."

The returned registered letter should be examined and the endorsements on the envelope noted. If there is the least doubt, the postmaster should be written to for further information and if possible the present address of the delinquent should be obtained. A simple "Unclaimed" should never be accepted as final.

All this is not legally incumbent upon the officials but it works so well that in practice they are justified in adopting it, the additional collections and the saving of trouble more than compensating for the trifling additional expense of obtaining conclusive evidence upon all who can be found and ascertaining the names of those who are out of reach and should

no longer be carried on the books. It is the safe method legally and the best from a business standpoint. These principles apply elsewhere, bearing in mind that it is only necessary to register letters when litigation is possible. It is sometimes asked if the fact that a letter bearing a return request does not come back to the writer is not proof that it was duly received by the party addressed. It raises a presumption. It will not do to depend upon it as proof.

#### **HOW ONE COMPANY MANAGES IT.**

A large and successful Mutual, whose business covers an entire state, has adopted substantially the following plan: When an assessment is made, a notice is mailed to each policy holder in an envelope bearing a request to the postmaster to return after thirty-five days if not delivered. This is five days longer than the time in which the assessment must be paid. A very large percentage of these will be answered by return mail and nearly all before the expiration of the thirty-five days. Occasionally some postmaster returns a notice before the expiration of the time with the mark "Unclaimed," "Removed," etc. This is immediately forwarded to the Postoffice Department with the request that it remain at the proper postoffice the proper length of time. The Department attends to the matter and that postoffice makes no further trouble. At the end of the thirty-five days all unclaimed notices come back properly endorsed and postmarked by the returning office. These are proofs that the notice was mailed and that

it lay in the postoffice for a period covering the entire time allowed to pay the assessment.

There will also be a few which are not returned and which have not been heard from, presumably they have either been received and neglected or lost on the way. Then, the registry method is tried and the agents are also written to and requested to use their best efforts to find the delinquent. This process is kept up until the company becomes satisfied that every one within reach is notified. The result is that when some one holding a suspended policy has a loss and endeavors to collect on the policy, denying the receipt of the notice, the company has the registered letter, and generally the agent's report in addition, constituting a perfectly good defense, and the same evidence is sufficient to justify a verdict in case the company brings suit to collect assessment. As was above remarked, the extra collections more than repay the cost of these proceedings, to say nothing of setting at rest blackmailing suits on suspended policies.

The same principles apply to all other notices. Whenever a dispute is likely to arise, the company should not only have proof that the letter was mailed but that it reached its destination. In a case decided not long since, an Insurance company employed a man in a capacity something like a general agent, paying him a fixed salary. After a time the president of the company wrote him that his remuneration in the future would depend on his commissions. At a later date the president wrote him giving him

directions for his work. Finally the agent denied the receipt of the letter changing his mode of remuneration and brought suit for his salary for the entire time he worked for the company. The court gave a verdict in his favor. Had the president registered his notice of the change in mode of remuneration, it would have saved the company many hundred dollars. In all such cases and where disputes are probable, it is best to register the first letter. Ordinarily open mail will answer, leaving those who do not respond to be reached by register. It is advisable to act on the supposition that whoever asserts that he gave notice by mail shall be prepared to prove by the registry receipt that the letter was actually received. This receipt does away with all other proof, for it shows who mailed the letter, when and where, and who received it, when and where. It is full and conclusive evidence.

Summing up, modern courts and juries require an official, whose duty it is to give notice, to use reasonable diligence to see that the notice is duly received by the party to whom it was sent. He must in all cases comply with the statutes and, in addition, make use of any means at hand, in short, he must get the notice to the party and get a receipt for it or show why he could not. The spirit of equity, which is more and more asserting itself among men, will not be satisfied with any thing short of this as legal notice.

**AVOID EXCESSIVE LEVIES.**

Assessments should be so managed as to avoid excessive levies, especially with new companies. It takes time to educate people along these lines. Even after years of experience, after a policy holder has passed two or three years without an assessment, a heavy loss will cause an expense which will frighten away many, even though the average is exceedingly low. Localities are reported where several Mutuals are working in the same territory. A heavy loss in one of them will cause a large number to change to one of the others when the policy expires. They stay there until another big levy comes along, and then away they go again. Of course, this is foolish, but it is done. Where it is possible, in case of very light losses, a little should be raised in excess of actual needs, and carried over to reduce the assessment when the heavy loss does come, as it surely will sometime. There are a large number of Mutuals which assess in advance, and collect old line rates, returning at the end of each year, the unexpended portion. They are loud in the praises of that method. Most of these write only one year risks. They claim that they have no trouble at all, and some of them say they have never failed to return a dividend.

But in this as in every other line of business, it is necessary for people to use the sense that the Creator has given them. So long as people will refuse to look at the facts, just so long will the smooth tongued representative of the old line companies persuade them that they are liable to be assessed for

all they are worth, so long will he select a single heavy assessment, multiply it by five to compare with his own five-year rate. Even in states where Mutual Insurance companies have been successful for half a century or more, there are still those who bite at this unbaited hook.

#### **HOW COLLECTED.**

How and where assessments are to be collected are matters of convenience. Some contend that it is cheapest to collect for the whole term in advance, that it costs, on the average, over ten cents each to collect assessments, excluding postage, drafts, money orders, etc., paid for by the policy holder, making at least six cents more, all of which, and also the annoyance and loss of the delinquents, is saved by the advance assessment plan. This is true with regard to the large companies, whose losses number several hundred each year. But in 1903, of the 199 Wisconsin Town Mutuals, 93, or almost half, made no assessment. The New Hampshire Town Mutual Companies, Dec. 31, 1902, report the date of last assessment as follows: 1898, 1; 1899, 2; 1900, 5; 1901, 2; 1902, 6; no date given, 3. That is, excluding the three not dated, 6 had made an assessment in the current year, 2 a year previous, 5 two years previous, 2 three years previous, and one four years previous. In New Hampshire the companies report the date of the last assessment.

Those companies, which do business in townships and counties or in areas so limited that every policy holder is probably known to one or more of

the directors, have developed their system until it appears near perfection. It works admirably till the number of risks and consequent increasing frequency of losses, not only bring about assessment too often, but afford opportunity for unworthy members to smuggle themselves in and make trouble.

In localities where the township system is in vogue, the township collector is sometimes employed by Mutuals. This is the cheapest and most effective method known. This township collector is a public officer who receives the taxes in his township. Sometimes he is elected, sometimes he is appointed, but very frequently the office is let to the lowest bidder. Whoever gets it is allowed to carry on any other business he pleases, and most of them are professional collectors. They do the work excellently and cheaply, visiting every locality in their township every few days or weeks at the longest.

Of course these are not the only methods. Some Mutuals collect through the banks and say that the practice works well. Others, especially those confined to small territories, make personal inquiry.

#### **RETURNED LETTERS MUST BE LOOKED AFTER.**

A recent case will illustrate the necessity of looking after returned letters very closely. A policy holder changed his address from a city to a postoffice nearer his farm. The postmaster, however, forgot it and when the notice of assessment came, returned it marked "Unclaimed." Meanwhile the man, anxious to keep up his policy, inquired of the agent about

his assessment. The agent told him to rest easy, he would be notified in due time. The company, failing to find him, suspended the policy. Then a loss occurred, and the facts came out. The company paid the loss. But this shows how easily trouble might have occurred, and how close and careful should be the investigation in all such cases.

In cases of death, assignment, appointment of receivers, etc., it will be necessary to hunt up the proper functionary. In these cases, continued inquiry will generally discover the facts and the notice can finally be served. Never omit to register mail in all such cases. Make sure of a receipt.

Some companies draw on delinquents through banks. Those which have tried this method say it works excellently. The draft is made on the delinquent at his last known residence, and the bank is pretty sure to find him if he is within reach.

**MUST SEE THAT THE INSURED READS HIS POLICY.**

A ruling was made in the case of *Medley vs. German Alliance Insurance Co.* (West Virginia) that "Failure to read a policy of Insurance within a short time after its delivery is not such neglect or laches as will preclude the insured from having a reformation," etc. In view of this and other decisions of similar import, it is absolutely necessary that the agent of each Mutual sees that every member reads his policy. It is true that it is a presumption of law that every member of a fraternal or Mutual is supposed to know the rules and regulations of the order to which he belongs. But juries do not always act

on that theory, hence the caution given above. If the by-laws are printed in the policy, attention should be called to them. If they are in the application, they should be read before signing, and the same rule should be observed if they are printed separately.

#### **FAILURE TO PAY.**

When the by-laws and regulations of a Mutual fire company provide that failure of a member to pay assessments within a certain time after notice shall terminate his rights, and that the policy shall be cancelled without further notice, failure to pay an assessment within the time limited works a forfeiture of the policy.

But an acceptance and retention by the company of an overdue assessment after the destruction of the insured property by fire, waives forfeiture and continues the policy in force.

The testimony of a collector of assessments was that the president told him that when members offered to pay assessments after the time within which they were to be paid had expired, he should accept them, was insufficient to establish a custom to accept payment of overdue assessments. The custom could not be extended by implication to authority to accept overdue assessments after the property had been destroyed by fire.

The absurdity of the claim that a policy continues in force whether assessments are paid or not is well illustrated in a case against a life Insurance company brought at Des Moines, Iowa. Suit was brought on the ground that when a company once

issues a policy it is bound to pay it whether premiums are kept up or not, that it can only subtract unpaid premiums or assessments. The idiocy of this claim is easily demonstrated. Suppose that it were established, the man who pays the premiums as they fall due would have no advantage over the one who did not. It is evident that all payments would cease at once and that as soon as the funds on hand were exhausted the company would pass out of existence.

#### **DIFFICULTIES DISAPPEAR.**

As the Mutuals become older and more thoroughly organized and the policy holders become more familiar with the system, the difficulties connected with the assessment system will disappear. There are many companies which find an unpaid assessment a rarity. The policy holders understand the matter thoroughly and live up to the rules. There is one objection to the method of making assessments by mail, the cost. Allowing two cents for postage, two cents for stationary, and four cents for clerk hire, making out, mailing, entering on the books and postal card reply, and three cents for draft for the remitter, and two cents for postage and one cent for stationery, the total cost of each assessment to each policy holder is fourteen cents. All this is saved by the cash in advance plan. And this plan is growing in favor. It has been in use for many years and is cheap and safe where the business extends over a large territory. Each locality, however, must be a law unto itself, and with its decisions no one outside should interfere.

## CHAPTER X.

### ASSETS, RESERVES AND SURPLUS.

These are treated in the same chapter for the reason that they are so often used as having the same signification. Ordinarily assets include all that the company has on hand, the reserve is what has been set aside for future needs and the surplus is what remains after all the demands have been provided for. But in Insurance affairs, even in legislative enactments, these words are frequently used for each other, and the result is a serious lack of precision in expression.

#### SHOULD A MUTUAL HAVE ASSETS.

The first question to be discussed is whether a Mutual should have any assets beyond the contingent liabilities of the members and a few dollars in cash necessary to pay the running expenses. There is a large class who hold the negative side of the question and they go so far as to say that no premium notes should be taken, nor should any assessments be made for an amount in the least exceeding losses and expenses actually accrued. Those who hold this view point to the hundreds of old established and successful Mutuals which carry out the theory to the letter and claim that they furnish complete proof of the correctness of their position.

**LOCALITIES DIFFER.**

Yet there are localities where this plan will not succeed. It requires a high standard of education and of business honor to successfully conduct such Mutuals. The policy holders must be "selected risks," must understand that indemnity, even though invisible and intangible, is an actuality and has a value, and they must be able to see that they have had an indemnity even though they have had no loss. They must also be able to understand that while in the long run the cost of Insurance will be very close to a certain average, it may vary very widely in any particular period or from year to year. A Mutual may run one, two or even more years without an assessment and then have several large losses at once. Such Mutuals as those which have been described would have no trouble but there are localities where such an occurrence would probably wreck the company.

**ERRONEOUS VIEWS.**

There are men who regard insuring in the same light as betting. They entirely fail to grasp the indemnity idea. Should such a man insure in a Mutual which only assesses to pay liabilities for past losses, and should an assessment be made at the end of the year, he would say, "I do not owe the company anything. I have had no loss, I have received nothing from them and am not in any way obligated to them." He would refuse to pay and it would take a lawsuit to collect the assessment.

There are others who have equally erroneous views in many ways. Time will educate these, but at first they must be taken as they are. The only way to do business with them is to demand an advance assessment, a membership fee, a policy fee, or some other advance payment which shall be large enough to make it to their interest to remain in the company and pay the assessments as they fall due. Wherever this plan is adopted, the company will have assets on hand, and the companies which use this method are loud in their praises, many claiming that it is the only safe way to do business.

#### THE EASTERN STATES.

In the eastern states, and especially in New England, public sentiment is strongly in favor of reserves and large reserves at that. There is statutory provision for the accumulation of funds in many other states. The Mutuals are conducted on almost every imaginable plan. Some assess after a loss, some in advance and others take premium notes. Some collect no more than is actually needed, others take old line rates and return the surplus over losses and expenses in dividends. All are furnishing Insurance very cheaply, all are successful, and they have had a material influence in forcing down rates in their localities. And every one of these Mutuals thinks that its plan is the true one.

Out of all this conflict of evidence one thing appears clearly, that these companies are all furnishing Insurance at low cost, are satisfactory to their

members and are gaining rapidly in business. Hence it is not just nor reasonable to make the charge that the use of a surplus or a reserve is drifting toward a joint stock organization, nor can any company say that its way is the only way.

There are other reasons why a reserve is desirable. The fire waste of the country, while tolerably constant in long terms of years, varies considerably from year to year. Conflagration periods occur and these require burdensome assessments. During the year 1904 there were terrible windstorms in many states. In one locality a single company had sixty losses in one county. This would have required a very heavy assessment. Fortunately the company had a reserve. The usual assessment was made, the balance drawn from the reserve, the losses were paid promptly and the reserve was made good shortly after. In this case the reserve was beneficial in two ways, it prevented a burdensome assessment, and it assisted in making prompt payment.

#### **LOAN COMPANIES DEMAND RESERVES.**

Many loan companies require that the Insurance policy be assigned to them as further security besides the mortgage. When the Insurance company has no surplus or reserve, these loan companies would be obliged before accepting the policy to make a thorough investigation of the affairs of the company, unless with a very old, large and well established institution. This, of course, is not practicable. Hence loan companies are obliged in

most instances to decline such policies, and borrowers who would prefer Mutual Insurance are compelled to accept some other. But if the Mutual has a reserve, the case is different. There is something visible and tangible and the policy is good security. It is sometimes hinted that the loan companies are against the Mutuals. This is not always correct. Loan agents are after their fees and commission and they will take any security which they can sell to investors. If a Mutual has established its reputation and is well known to be reliable, they will take its policies without hesitation.

From this it appears that reserves have a legitimate place in the Mutual system. It is not claimed that all companies should carry reserves, but that those who find it advantageous may do so without forfeiting their right to be considered Mutuals.

#### THE TRUE TEST.

The true test of a Mutual is not its method of book keeping or collecting assessments or of managing its funds, but whether it furnishes insurance at practically first cost. If it does so, it is a Mutual.

As Insurance breaks the force of the shock which might prove disastrous to the individual by dividing a loss among several persons, so when a conflagration occurs or there is some unusually heavy loss requiring an assessment which would prove burdensome, the reserve gives relief by enabling the company to divide up the load into several smaller ones payable at different times. To illus-

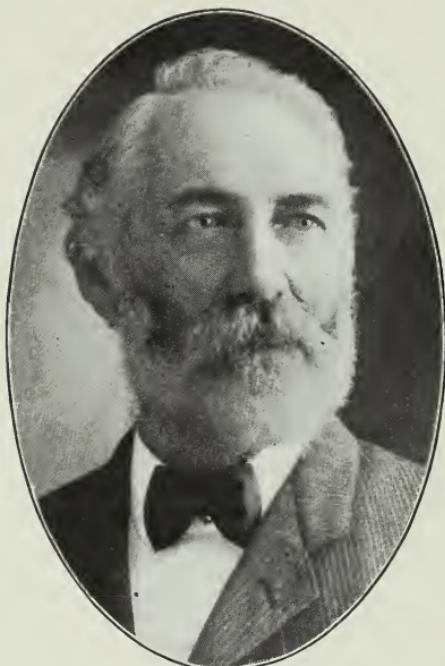
trate, suppose a company in which the annual assessment is 40 cents on each \$100 at risk has a loss which would require 75 cents on the \$100. To call for this at once might inconvenience many of the policy holders. But with a reserve the usual assessment can be made and the balance taken from the funds on hand. As one extreme usually follows another, there will be a period of somewhat lighter losses and during that time the reserve can be built up to its normal amount.

The question is raised whether it is right to take a portion of the premiums paid in to build up a permanent reserve. There will be many who contribute to the building of such a reserve who may never derive any benefit. In answer to this it may be replied that the whole progress of society is in just that way. The roads, public buildings, bridges, etc., which the public owns today were paid for by the generation which preceeded. The total of these foots up an enormous sum. It is stated that in Boston the public property is about four thousand dollars to each inhabitant, so that the newly born Bostonian is heir to four thousand dollars worth of property which he can use and enjoy but which he cannot dispose of nor take away. This was provided by his predecessors and he in his turn will add something for those who come after him. The same is true in churches, lodges, etc. The earlier members provide for those who are to follow. Building up a reserve, therefore, infringes upon no principle of justice, but has the endorsement of society.



#### **ROGER F. UPHAM, WORCESTER, MASS.**

Mr. Upham is a typical New Englander, careful, cautious straightforward, thorough-going, good humored and genial. He is secretary and treasurer of the Worcester Mutual Fire Insurance Company which was chartered in 1823, and has grown to be one of the largest and strongest companies in the State. But the best idea of Mr. Upham can be gained from his splendid article on "Mutual Underwriting in Massachusetts," published elsewhere in this volume.



#### **ALEXANDER T. STRANGE, WALSHVILLE, ILL.**

Mr. Strange was a native of Georgia. He came to Illinois in 1867 and finally settled on a farm. He was active in the organization of the Hillsboro Township Mutual Fire and the Pana District Cyclone Insurance Companies, and has been secretary of both since their formation. He is the author of the forms of policy record and the card system of records, widely used by the mutuals of the United States. He is a member of the Illinois Association of Mutual Insurance Companies, holds an important position in the National Association and has been for two years a delegate to the Farmers' National Congress.

**HOW SHALL A RESERVE BE BUILT UP?**

How shall this reserve be built up? Mainly by setting aside a small percentage of the profits or savings. This percentage is usually so small that the policy holder scarcely knows whether he is paying it or not. It is customary to charge a small percentage extra on short term risks and this may also be used to increase the reserve. But in every case the reserve is of very slow growth.

Some companies do not admit policy holders to participation in profits till after a stated period. One Mutual extends this term of probation to ten years. Others give a portion only to policy holders whose Insurance runs for less than five years, the balance being turned into the surplus or reserve.

How large shall a reserve be? This takes in the whole question of assets, surplus, etc. Suppose the case of a Mutual taking premium notes with an advance assessment and doing some short time business, but generally issuing five-year policies. It will have on hand a mass of notes of which something less than one half will have been collected, less than one half since premium notes are rarely paid in full, a portion being generally returned to the policy holder as profits. It will also have a fund on hand, an amount of cash paid in on assessments and on short time policies, of which only a portion has been earned and becomes the property of the company, all claims first having been paid. It may also have a reserve and a surplus. But the first two items will compose a large part of its holdings.

Computing the premiums and other expenses on the unexpired Insurance, the aggregate would be somewhere near the total of cash and uncollected notes on hand. Should it fall short of this, the company is unsound and should either levy an assessment or in some way provide for safety. But supposing the company to be safe, the total of cash and uncollected notes should more than equal the amount due to policy holders on all outstanding risks and this excess will constitute a surplus. A portion of this surplus can be carried to the reserve and many companies are in the habit of thus adding to the reserve from time to time, their assessments depending upon the good fortune of the company at the time.

#### **THE ACTUAL RATIO.**

The actual ratio of the reserve to the total amount at risk is estimated differently in the east and in the west. It is a matter of some importance that the reserves of the Mutuals should be confined by law to the lowest limit consistent with safety.

In Massachussetts the limit of the permanent fund, as the reserve is called, is two percent on the amount of the total amount at risk. In the west a much smaller figure is deemed satisfactory, less than one fifth of this amount. The eastern basis is made to meet the competition of stock companies. The western basis is the average annual loss and fire waste which is over three dollars on a thousand, the limit being placed at four dollars. Thus the eastern company with ten millions at risk would require a

reserve of \$200,000, while the western reserve for the same risk would only be \$40,000.

The total assets of the western company would be its premium notes, its cash, etc. on hand and its reserve of \$40,000. Its liabilities would be the unearned portion of its notes and cash, and the unpaid claims, if any. Its surplus would be the balance after its liabilities and its reserve were deducted from its assets. If too large, a dividend should be made to the policy holders or the assessments reduced.

It should be a maxim in all insurance enterprises to carry a safe amount of resources on hand, but no more. Large accumulations of wealth tend to extravagance, to say nothing worse. Hence the reserve should be carefully adjusted to the actual requirements and no useless balance should be tolerated.

#### **HOW INVESTED.**

The reserves of Mutuals should be invested in first class loans on real estate security. This is the best investment so far as safety is concerned and has the additional advantage that it has no tendency to entangle the Mutual with other corporations. The holdings of the life Insurance companies of the United States are two billions of dollars. A large portion of this is in railroad stocks and bonds. Who can tell what influence this fact has had upon the railroad legislation of the United States? For the interest of these companies and of these policy holders lies in the high dividend paying power of the

railroads. But the interest of the Mutual which has loaned its reserve on farm mortgages lies with the general public which maintains and supports it.

The reserve also helps to settle another question. There has been much discussion over the liability of members of Mutuals in case of loss. So long as all losses are to be paid in full it is evident that assessments must be unlimited. When assessments are limited, if they fall short, the losses must be pro rated. Failure to recognize this principle has made no end of trouble with companies which do not carry a reserve. Some of them stipulated in their policies that the loss should be paid in full and the assessments limited to a fixed amount. Heavy losses occurred and the courts held that the first stipulation was binding and ordered assessments levied accordingly.

But with a reserve on hand the case is different if only the payments and assessments are high enough to cover the average fire waste for a term of years. In case of an unusual loss, the reserve is drawn upon, the policy holder gets his money at once and the assessment is kept within the usual limits.

For a full account of the New England reserve system, the reader is referred to Mr. Roger F. Upham's magnificent article on Mutual Underwriting in Massachusetts, which appears in this volume.

The astonishing exposures of old line methods among life Insurance companies of the east raise the question whether the Mutual fire and storm Insurance companies can be manipulated in the same way. A comparison of the two will answer the question.

It may be affirmed that with all their crookedness the great life companies are still solvent, death claims will be paid in full and annuities will be kept up. Where then does the loss come in? In the diminution of profits, which, according to the contract, should go to the assured. This is true in all lines, fire and life.

#### JUGGLING WITH FUNDS.

To understand this, it is necessary to have some knowledge of the workings of the investment departments of these enormous institutions. Premiums must be held till they are earned, and in order to make the most of them for the policy holders they must be invested where they will draw interest. The usual rate has been four per cent on the average. A combined capital and surplus of four hundred millions of dollars should return an annual interest of sixteen millions of dollars. It is easy to see that a very small fluctuation in the rate will make but little difference to each member, but will make a very large sum in the aggregate. It is upon this principle that the grafters have acted. They have juggled with stocks, they have bought and sold to their own advantage, they have patronized their own institutions to the detriment of the Insurance company and have thus enriched themselves at the cost of the policy holders. And what chance has an individual member to investigate? To look over the lists of stocks, to investigate its values would be the work of a year for him. The proposition is absurd.

Now take the Mutual figures. The accumulations of a century and a half have, in the old Contributionship only barely exceeded one per cent of the enormous figures given above. Even millionaire Mutual fire companies are exceedingly scarce, while generally speaking a Mutual fire, which has on hand a hundred thousand dollars, is looked upon as exceedingly prosperous. The opportunities for grafting sink into comparative insignificance. They are less than the "trace" in the weather report.

The modern grafted is shrewd. He steals indirectly and in small amounts. He plunders large institutions and big cities, where his pilferings will not be missed. The small incomes of the Mutuals do not furnish fields large enough for him to operate in. Very little grafting can be done where the total income from investments is only a few thousand dollars each year.

#### **MUTUAL RESERVES ARE SAFE.**

The modest resources of the Mutuals are entirely different from the great accumulations of the joint stock companies. They are working balances, small amounts kept on hand to prevent the company from running out of money in case of unexpected increase of expenses, or of falling off of income. When a sufficient amount is secured the accumulation ceases. But the joint stock company has no limit, it goes on forever.

Again, the small reserves of the Mutuals are more easily invested and looked after. Some large joint stock life companies have more than two hun-

dred and fifty lines of investment, stocks and bonds of every imaginable kind and scattered all over the world. How many men are there who can appraise these anywhere near correctly. On the other hand, there is scarcely a farmer who cannot, in a few hours, examine and appraise the real estate mortgages in which the reserves of the Mutuals are invested. There is no chance for fraud in these methods, the very figures themselves settle that question. There is no room for the grafter, no place where he can hide, and no member who is not able to detect him.

## CHAPTER XI

### ADJUSTERS AND ADJUSTMENTS.

The agent and the adjuster are field officers upon whom the reputation and success of the company largely depends. With them the people come in contact and by what they do or leave undone the people will form their judgments.

#### SPECIAL QUALIFICATIONS.

An adjuster has a difficult task and needs special qualifications. He must above all be a man of integrity, not merely honest as the world goes, excusing wrong by pleading mercantile custom, but determined to do equal and exact justice everywhere and on all occasions. Such integrity is not a manufactured article gotten up for the occasion. It is the outgrowth of a correct life. It is a habit as well as a sentiment, a part of the personality, an element of the character.

In his own line the adjuster will make practical application of his principles by awarding everyone who has suffered a loss the amount of indemnity due him, no more, no less. The idea of taking advantage of technicalities to enable the company to escape its obligations in whole or in part, will receive no toleration from him. His very manner, his bearing, his

methods, should impress upon the loser the conviction that justice will be done, that he will receive all the indemnity for which he has paid.

In case of attempted fraud these characteristics will be useful. The man who always does exactly what is right is the man who generally avoids falling into traps set by those who would take advantage of him, and he is also the man whom dishonest persons fear to approach.

The adjuster should also possess a good share of common sense and it should not be an unused talent. Pure integrity with no other good qualities is of little value, it is too easily imposed upon. Zeal without knowledge is a dangerous thing. The adjuster will deal with many cases which call for good judgment and careful discrimination. Without good sense and sound discretion he may blunder most woefully. He should also know how to be firm without being obstinate and how to disagree without being contrary.

#### **TRAINING REQUIRED.**

These may be termed the mental qualifications, the elements which go to make up his personal character. In addition he should have some training in his own line. He should know something about Insurance law and practice. He should understand policies, and should possess information enough about estoppel and waiver to avoid getting his company into trouble.

He should be able to think quickly and to see the bearing and effect of every word of his own and of the insured, and should never permit himself to be

provoked into using hasty utterances. He should also understand modern business methods, in fact he should be an all-around business man.

Among the special equipments for his position, should be a thorough knowledge of the value of property which he will be likely to be called on to appraise. Should a loss occur in a line with which he is not familiar, he should thoroughly inform himself before undertaking the adjustment. This is the only safe method.

#### **SHOULD NEVER DO WRONG.**

The adjuster should never lose sight of the fact that he is in business for the purpose of carrying out a fair and honorable contract, and that attempting to evade any obligation imposed by that contract is an attempt to defraud, is dishonest and disreputable. No matter with whom he is dealing, no matter what the provocation may be, the adjuster should never resort to any course which is not in itself absolutely free from wrong. It is true that there are some who say that in dealing with a dishonest man he must be met on his own ground, and that they must "fight the devil with fire," but all this is the cheapest kind of sophistry. One man's fraud does not excuse another's, even if proven, much less when such fraud is only suspected. And if such fraud on the part of the adjuster be detected, it will only make his case so much the worse.

**A BAD CASE.**

In the New York Independent of Sept. 29, 1904, appears the following, among several similar statements in other lines. The editor of the Independent vouches for its truth, but for obvious reasons suppresses all names. Several business men were giving their experience. One of them said:

“I’m an Insurance adjuster, and you would not think that I ever had to use money, but I do. On the small losses and losses in the country there is never any trouble, though we often have to pay far more than the value of the goods burned. To these losses I do not attend, but only see to the big ones in the large cities where the loss will amount to hundreds of thousands of dollars and occasionally millions. They usually get one of those firms of adjusters—I work for the companies—to manage their interests. If I only had the principals to deal with, it would be an easy matter. It would take time, because the owners naturally think their property worth more than it really is, but tact and management will usually pull the toughest matter through. But when one of those infernal Jew or Yankee adjusters gets hold of a big loss and ties up the owners with a contract to do all the business through him, there is only one thing to do, and that is to buy the adjuster. Why, in that big fire of the ----- hotel there was only a partial loss and we hitched and pulled how much it should be for three weary weeks. That adjuster would not come into the open and say how much he wanted. If he had, I would have gone straight to the

old man and then we would have had a row. I did suggest to the owner one day that the adjuster was crooked and found for my pains that the adjuster had informed him that I wanted a bribe. Well, it went on and on, and one day I said to that adjuster that if he'd settle for \$250,000—they wanted \$350,000—I'd leave an envelope for him at the hotel in the morning. He was shrewd and replied: 'You leave the envelope and I'll see.' So next morning I left an envelope with two thousand dollar bills in it. He met me with a smile and said, 'Oh, why leave so small an envelope; leave a larger one.' I had to leave three envelopes containing \$15,000 before he came down and I positively refused to leave any more and said that it could go to the courts. Then we settled for \$260,000 and a few odd dollars. The amount over \$250,000 was put on to 'save my friend's face,' as the Chinese say. But this was really a saving to the companies as they had planned to come up to \$300,000 if necessary. It always hurts an Insurance company to let anything go into the courts. Some months afterward I accidentally found out that the adjuster had gotten over \$10,000 from the old man as a bribe on me."

#### THE EVIL RESULTS.

It would seem at first sight, as if the adjuster who related the story had saved his company nearly \$40,000. But he has simply shown that there was little or no attempt to arrive at an exact estimate of the loss, but on the contrary that the company only

cared to get off as cheaply as it could, and he has advertised himself as a blackmailer. It would have been far better to have made a fair and reasonable adjustment and then taken the matter to the courts if necessary, than to have settled it by bribery.

It is said that it hurts a company to get into courts. But the hurt comes from the reputation already gained by such transactions as the one above quoted. Public sentiment never turns against a man or a corporation for resisting a fraud. It is only when the reputation becomes shady that a person is liable to be suspected of using the courts to avoid his just obligations. This whole affair and every party to it reeks of dishonesty.

#### **MUST NOT RESORT TO TRICKS.**

Nor should the adjuster try to set traps for the loser till it develops that there is a necessity for it. He is entitled to a full and fair statement of the amount of loss and to all explanations necessary to enable him to arrive at the actual facts. But he has no right to induce the loser to sign agreements which he does not understand, and then to take advantage of him. What is wanted is fair dealing between man and man. The adjuster can generally tell at once what kind of a man he is dealing with. If he meets with an honest man there will be no trouble. The tricks of the incendiary or of the over insurer will generally come to light.

There is, in Insurance circles, a general sentiment that losses are paid too high. On the outside, the opinion is the other way. It is probably true that

the average sufferer usually over estimates his loss and also that he sometimes puts a sentimental value on property destroyed. But the cool, quiet and careful adjuster can avoid trouble. He can very easily get at the cash value of the loss, and when the loser is a fair minded man he will not be long in making up his mind that he is not entitled to more.

#### **SOME PROBLEMS.**

In the case of farm or town dwellings, churches, school houses and similar buildings, there is not much trouble in arriving at the amount of the loss. Sometimes it requires effort to arrive at a fair appraisal of the contents, but patience will generally accomplish it. In the case of other farm buildings, especially those which have been erected for some years, there may be a wide difference between the claimant and the adjuster and it will require skill and tact to arrive at a satisfactory agreement. Peculiar problems present themselves. A granary or corn crib burns, the walls are gone and the grain or corn has spread out over the ground. How shall it be measured? How shall the adjuster estimate the weight of the hay consumed in the barn which was destroyed? But these problems are simple compared with the questions which arise when stores or large establishments burn.

#### **COUNTRY STORES.**

Generally when a country store burns the books go with it and there is nothing to do but to start with the amount of the last annual invoice which will

probably be remembered, then add the purchases as they can be called to mind, compute the sales, using the bank account, the remittances and expenses as aids in the process, and reducing this amount by a fair estimate for profits. The balance will be the net sales which, taken from the sum of the invoice and purchases, will leave the net stock. Due allowance must also be made for freight on the one hand, and depreciation on the other. The final result will be somewhere near the true amount.

In the case of large establishments this process becomes extremely complicated. As concurrent Insurance is usually carried in such cases another problem arises, how shall the loss be divided? Sometimes this is not easy to decide.

Where there is a desire for fair dealing on both sides all these matters can finally be brought to an acceptable conclusion. It is better that the adjuster should yield a trifle than that the case should go to appraisers or arbitrators. This course will make friends for the company and in the long run will pay best.

#### **FAIR PLAY AND THOROUGH WORK.**

The adjuster should avoid all prejudice and all premature judgment. He should go out with two objects in view, fair play and thorough examination and with absolutely no bias in favor of either party. His work should be thorough and in detail, every item being carefully considered. Losses may be honest and the policy holder may be sincere in his claim, and yet thorough investigation may show to

the satisfaction of both parties that the damage is really much less than it appeared at first sight. The case of a large mill has been cited. The warehouse attached was burned and the cotton stored there was supposed to be a total loss. But digging down among the debris of the fallen building it was discovered that there was a large amount of unconsumed material. The value of this was saved to the company. In every large city there are men who make a business of dealing with buildings which must be torn down, the salvage from fires or wrecks, etc., and the amount they save to the Insurance companies is very large.

#### **A DISHONEST ADJUSTER.**

The following case illustrates what an adjuster should not do. A farmer lost a fine house by fire on which there was an Insurance of \$1,600, the actual value of the house being about \$1,800. The company was notified, the adjuster arrived, called for the policy, looked it over and with pitying smile turned to the loser, "My friend, I am sorry to say that your policy is worthless, but the company will be liberal, they will donate you back your premiums and a little more. They will give you a hundred dollars. Now you just sign this receipt." But the farmer said he would wait till next day.

He consulted a friend who told him to demand the full amount. He did so. Then the adjuster wanted an arbitration. This he had waived, but they figured with him a little and then told him he could

pay in full or go into court. The claim was allowed and the \$1,600 paid, but the company lost all its business in that locality.

#### ACTUAL EXPERIENCE.

Mr. Bridgens, an Insurance adjuster of long experience, furnishes the following: "The greater number of patrons of the company for which I work are men who wish to do the fair thing, and with whom it is a pleasure to do business. Now and then I meet a man who seems to think that an Insurance company exists for no other purpose than to be robbed and he tries to do the robbing act to the best of his ability.

"For example, a man owns a poorly built barn on which he has succeeded in getting Insurance. The wind loosens some of the braces or perhaps there never were any and he reports some trifling damage and is told to repair it. In doing so, he puts in 2x8 braces, when there were originally 1x4, or perhaps none at all, and does all the other work in the same manner and thus runs up a bill of \$70 or \$80 for repairing damages for which the company, in strict justice, should not be held.

"Sometimes I get a notice that a roof has been blown off. Arriving at the place I find that a few shingles have been stripped off. That house does not get a new roof at the company's expense.

"I remember another case where it was not the roof but a foundation blown away. The building was a school house, and damages were claimed for a

large hole in the foundation said to be caused by a wind. I went to the place and rode out with a boy about twelve years old to show me where his father, one of the directors, was at work. On the way the boy told me how the larger boys had taken the wall out to catch rabbits. I asked him if the wind had not done the damage and he said no, that the boys had taken the wall out. This wall was twenty feet by thirty and twelve inches high, sloping back to six inches. They had presented a bill for \$40. One man would have laid it all in one day. I objected to paying \$40 for damages done by the boys. They got angry and said the other company had paid the \$40 without ever coming to see it. This was the first I knew of their having double Insurance. Of course I expressed my opinion of them and told them they ought to be behind the bars for such work.

“In another case a man in mercantile business owned a farm and had insured a barn against fire and wind. The barn blew down and I went to settle with him. I could not reach any agreement as he claimed he had paid a premium for fire Insurance as well as windstorm and he wanted full pay for both. I spent a whole day with him and finally had to take him to a lawyer before I could convince him that we were only liable for the wind loss.

“A kitchen addition was burned and the owner had rebuilt it. The bricks in the chimney were new. The husband was away and I remarked to the wife that it was singular that the old brick had all burned

up without leaving a trace, when she blurted out 'I told Jim that the company would never pay for that new chimney.'

"These are some of the unpleasant matters an adjuster meets but I am thankful that they are few and far between. I always recommend that such risks be settled and cancelled out. The company is better off without them.

"Sometimes an adjuster sees queer things. I was called on to adjust a small loss by windstorm. Desiring to inspect the under side of the roof, I climbed into the attic and there found a piece of board and a lot of cobs piled against the stove pipe which came up through the ceiling. I went down, settled the loss, and then told the man, 'Your policy is cancelled and this business is over.' He had evidently intended to burn the house and had he not claimed the windstorm loss his plot would not have been discovered."

But usually the life of an adjuster is pleasant. Our Mutual men are generally fair. Of course when a man has a partial loss he is apt to over estimate it. It generally looks worse than it is. But when he is told to repair it, to make it as good as it was, and bring in the bills, he is almost invariably well pleased and he and the adjuster always part good friends.

#### A COMMON CASE.

Another actual case will illustrate a very common occurrence. A gasoline stove took fire in a residence of a widow. That stove was thrown out and the blaze extinguished but everything in the room

was smoked and scorched, the plaster was cracked, the wainscoting blistered, a valuable hardwood wardrobe badly injured by the blaze and sundry other damages had occurred. It was sometime after the fire when the adjuster arrived, and meantime sympathizing neighbors had worked up the good lady's ideas of her damage to a pretty high figure. The adjuster talked with her a few moments in a sympathizing way, assured her that the company would replace everything as good as it was and that she need have no fear of the outcome. He explained to her that the company was a Mutual, that her neighbors were paying part of the loss and that they were all interested in fair play.

Still the woman was somewhat worried and anxious. So the adjuster started at his work. He began with the plastering. He measured the number of yards, computed the cost of taking off the old and putting on the new. Then he measured the wainscot and computed the cost of replacing that. Next he came to the wardrobe which was really a fine piece of furniture and was highly prized as a family relic. It was so scorched and blistered that it appeared almost worthless. But the adjuster soon saw that only the surface was injured and he turned to the lady and said, "Madam, I am glad to tell you that this can be made as good as new. It is really a beautiful and expensive piece of furniture and you must esteem it highly. We will pay for having the surface planed and polished and for having it finished up so that you cannot tell it from new." This was satisfactory.

Then he took up other matters. The gasoline stove that caused all the trouble and was standing out of doors came next. How much was it worth when the fire took place? It had cost thirty-five dollars and had been in use eight years. She thought she ought to have somewhere near what it cost. The adjuster demurred and asked her if the stove was repaired, as good as it was before the fire, whether she would use it again. She replied at once that she would not have the thing in the house. The next question was how much she was damaged by the loss of a thing she would not use. She saw the point at once. The adjuster then said, "The average life of a gasoline stove is ten years. You paid thirty-five dollars for this, that is three dollars and a half for each year. You have used it eight years, leaving two years in which it might answer. Now the cost of the stove for these two years is seven dollars. Is that not a fair allowance for the stove?" She was satisfied.

#### THE SQUARE DEAL WON.

A few other articles were disposed of in the same way, two or three claims for blemishes on small articles to which no real damage was done were withdrawn and the sum footed up. The adjuster then said, "Madam, we will do this work for you and put everything in good shape, or if you prefer to do the work yourself we will pay you this amount in full." The lady hesitated a moment, then turned to her sons who were standing by and said, "I think we shall take the money." They agreed at once, saying

that they could do much of the work themselves. The money was paid and the case settled to the full satisfaction of the family for less than a third of the original claim.

A stupid or an obstinate adjuster would have found in this case a magnificent opportunity to make trouble. He could have precipitated a quarrel at once. Then there would have been a neighborhood uproar, and in all probability, a lot of cancelled policies. But when the woman and her sons saw the loss was to be made good they became easy to deal with at once and the whole community also was satisfied that the widow had been fairly dealt with.

#### **THE COST OF BUILDINGS.**

There are three methods of estimating the cost of buildings. They are, at best, approximate, only apply to the average building, and must be modified to suit the surroundings in each locality. The first method is by the number of rooms, the second by the number of square feet in the floors and the third by the number of cubic feet in the building.

The first rule is sometimes used by carpenters who have erected a number of buildings and have computed the cost of the work and material in their line with the addition of the work of the plasterer, the painter and the paper hanger, but with no allowance for fine finish. In fact it covers nothing but a plain frame dwelling with no very large rooms. The figure usually given is \$100 per room, counting the cellar as one room. Where lumber is cheap and

labor cost not excessive it will barely cover the expense. Should porches or fine inside work be added this estimate will be too low, as it will also be where lumber and wages are high.

The floor area, found by multiplying the ground area by the number of stories, is also used as a basis. The cost of ordinary plain frame dwellings is estimated at \$1.00 per square foot of floor. More elaborate structures are much higher. This method is defective, as it takes no account of the height of the stories. It is even worse guess work than the first.

The third method, by the cubic foot, is more satisfactory, than either of the others. It takes into account the size of rooms and heights of ceilings, which the others do not. Good authorities estimate dwellings at 4½ to 10 cents, according to finish. It would be error to assume that an estimate can be made in this manner for every locality. The average cost per cubic foot for each locality must be arrived at by deductions from the cost of buildings actually erected in the several localities. This cost will vary with the varying cost of lumber and materials, the rise and fall of freights and of wages, etc.

#### THE BEST METHOD.

The best method for the adjuster is to procure the actual bills for labor and material of as many buildings as he can. From them he can make a table which will be tolerably accurate for his locality. This table he can adjust from time to time, as prices and styles change.

There is much difference between dwellings erected at different periods, especially in the west. The earlier constructions are of the plainest character. Probably there are few new towns where the average building is much more than a wind break. But year after year the buildings improve until finally the cost per cubic foot is doubled, perhaps tripled. The adjuster must keep up with all this.

Barns and other out buildings are built much more cheaply than houses. They have stronger timbers but the other material may be cheaper, 2 to  $2\frac{1}{2}$  cents a cubic foot will be fair.

In computing the cost per cubic foot, different adjusters do not use the same rules. Some find the square feet in the ground area and then multiply by the height of the stories plus one third of the slant height of the roof. Additions containing a different number of rooms must be computed separately. Others take the actual number of cubic feet in the rooms or in the square part of the barn.

#### **WHAT IS A TOTAL LOSS?**

This question is important, especially in states which have valued policy laws. It has come before the courts on different occasions as a matter of fact for a jury to decide. The doctrine laid down is that a building is a total loss when its identity as such building is entirely destroyed. Others say that a building is a total loss when it must be rebuilt, and not repaired and when no portion remaining can be

used to advantage in repairing it. When a building is repaired, it is still the same building, when it is rebuilt or reconstructed, it is a new one.

The fact that some portion of the building is unconsumed does not prevent the loss from being total, if that portion standing cannot be used to advantage in repairing it. In one instance, a flue and a side wall were left intact. It was proven that these could not be used to advantage in repairing the building, the court held the loss total. In another case, a basement wall and part of a cellar foundation were left. They could not be utilized and the loss was held to be total. Cellar and foundation walls have been the subjects of many disputes. Instances are reported where adjusters have tried to deduct the whole cost of excavation, simply because a hole in the ground did not burn. Most cellars are walled in some way, but there are sections of country where no walls are needed, if the water is kept out. When a fire occurs where there is such a cellar, if the assured does not know his rights, he is pretty sure to be swindled.

#### **AVOID TECHNICALITIES.**

Mutuals should avoid all such tricks, and should observe the spirit of the law as well as the letter. It is an old maxim that the law is not concerned about trifles. To attempt to evade an Insurance contract because a few sticks and stones have not been reduced to ashes, is dishonest. If it can honestly be said that what is left is of no practical use, that the building cannot be repaired, the loss is total.

On the other hand, if what is left is in sufficiently perfect condition to be used in repairing, then the loss is not total. Suppose a fire takes place in a barn, the timbers are scorched but not weakened, the shingles and siding are burned off but the sheeting on the roof is still good, then the loss is only partial.

There is a general tendency among a man's neighbors to exaggerate his loss when a fire occurs, and this must be taken into account when deciding the question under discussion. There will probably be conflicting testimony. The adjuster needs to inspect for himself and decide for himself.

A good authority suggests that if an uninsured person owning the building and desiring to replace it as good as it was before, would take down what remains as unfit to use with safety, then the loss is total. Otherwise it is not.

#### **SALVAGE.**

In case of total loss, and the payment of the face of the policy by the company, to whom does the salvage, if any, belong? To the assured. Some companies have gone so far as to claim deductions for the rubbish and even for the "hole in the ground," that is sometimes used in place of a cellar by dwellers on the western prairies. It is not uncommon for companies to make claims for allowances on other accounts equally frivolous. Something depends on the wording of the policy, what the contract is, but generally when the loss exceeds the face of the policy, it is the same as if it were total.

Three fourths clauses, co-insurance agreements, and other limitations of liability would influence the award while the ordinary policy agreement insuring against loss by fire up to a fixed amount would require that the company should pay all damages up to the face of the policy.

Insurance practice would be materially simplified if the states would adopt a standard policy which should state clearly the liability in all such cases.

#### **RAILROAD FIRES.**

Railroad fires are frequently a source of vexatious disputes. Statutes generally hold railroad companies responsible for the damage done by sparks from their engines. These sparks could be prevented, but to do so would be expensive and inconvenient.

In these days when everything is subordinated to speed, nothing is added to a locomotive which will interfere with the draught of its furnace or will increase its weight. It is considered cheaper to pay for the losses than to suppress the sparks. As long as this is the case, the railroads should pay the injured party in full, and when the party is an Insurance company, it should receive the amount of damage it has been called on to pay up to the full amount of the policy. Many states have statutes to this effect and these have generally been upheld by the courts.

Kansas, not long since, enacted a similar law. A railroad company set fire to and destroyed insured property. The Insurance company paid the loss and then demanded to be subrogated. The railroad made

a vigorous fight but the Mutual won the case. It is to the credit of the Mutuals that one of their number was the first to take up this matter and to win a victory.

#### **VACANT OR UNOCCUPIED.**

The same principle should apply whenever destructive fires are set out by any party whatever.

The New York form of standard policy provides that, "if a building herein described, whether intended for occupancy by owner or tenant, be or become vacant and unoccupied and so remain for ten days, the policy shall become void." Some other standard forms make the time thirty days instead of ten. Still another form uses the words, "Vacant, unoccupied or uninhabited, other than temporary unoccupancy, during absence of family or pending rental or change of tenants." This was construed by a court as follows:

"A fire policy stipulated that it should be void if the building insured should become vacant or unoccupied, unless otherwise provided by agreement endorsed thereon. At the time of the issuance of the policy the building was, with the knowledge of the insurer, occupied by tenant. The building continued to be occupied by the tenant until 5 o'clock P. M. on the day the same was destroyed. The tenant, without the knowledge of the assured, removed therefrom; and four hours after the removal, and before the assured had learned of it or had had opportunity to procure another tenant, the building was destroyed by fire. Held, that the building was vacant

or unoccupied, within the meaning of the policy, at the time of the fire, and the policy was void." *Ohio Farmers Ins. Co., vs. Vogel*, 73 N. E.

This decision seems to consider the words "vacant" and "unoccupied" as having the same meaning.

#### DOUBTFUL CASES.

The form using the words "reasonable time" is objected to as being indefinite. There might be a dispute as to what length of time is reasonable. Under the form which gives no time whatever, disputes might arise as to what constitutes a vacancy.

In the case of dwellings is it necessary that some member of the family or some other person be continuously upon the premises? These technicalities have been raised. Most Mutual policies give a specified time, after which the Insurance is void. This plan is fair and has the advantage of being easily understood. If a policy holder wishes to leave his house for any length of time exceeding the limit, he knows that he must either find some one to occupy it or procure a vacancy permit.

The doctrine of waiver applies in vacancy cases and as to tenants. The principle laid down in the following case will apply: "A fire policy stipulated that it should be void if the property insured was then or should become occupied by a tenant. With the knowledge of the insurer, the property was at the time of the issuance of the policy occupied by a tenant. Held, that the stipulation was waived by the insurer." *Ohio Farmers Ins. Co., vs. Vogel*, 73 N. E.

**MUST KNOW THE FACTS ABOUT PROPERTY.**

No agent or adjuster can do the work satisfactorily unless he has some knowledge as to how long the property he deals with has been used, and how much of its original value is lost. Under the head of classification of risks will be found a table of depreciations but it is only averages. The careful man will keep his house in good repair, and the yearly reduction of value will be very small. But the man who pays no attention to his dwelling will let it run down so that it may become uninsurable in a few years. Machinery in the hands of careful men will last for many years, but the unskillful will destroy it in a few months.

All these matters must be decided by observation. It is the only fair way. A fixed rule is unjust. It offers a reward for carelessness and places a penalty on thrift. The adjuster should in every instance ascertain as nearly as possible the exact cash value of the property at the time of loss.

**A GOOD PRACTICE.**

At the Chicago meeting of the National Association, Mr. Lincoln R. Welch, of Fitchburg, Massachusetts, read an able paper "Classification of Farm Risks." It was illustrated by photographic views of many of the buildings. These views were of such material service that it has since been suggested that it would probably be well for every agent to carry a kodak and to take one or two views of each building and send them in with the application. They would be of material service to the adjuster in case of loss.

**SENTIMENT HAS NO MARKET VALUE.**

Adjusters should bear in mind that sentiment cannot be appraised at a cash value nor can it be insured. Worn out articles of furniture, heirlooms from ancestors, may be valued very highly owing to associations but that value is purely sentimental. It will bring nothing on the market. It is the cash value which must be considered and nothing else. It is said that adjusters occasionally have trouble in settling with losers of family portraits. Sometimes when musical instruments are burned the owners seem to think that they have an especial worth far above the average. In both cases the estimate is sentimental. Only the actual value should be paid.

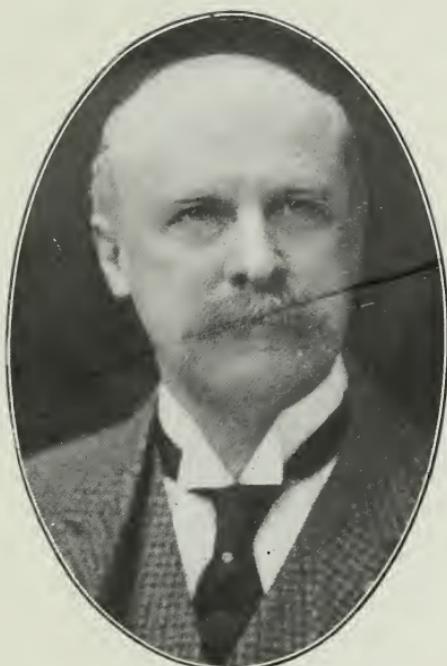
The true spirit of the adjuster should be that of payer and loser both. If the loss was his, what would he be willing to settle for. If he had it to pay, what would he be willing to give to make it good. Let the loser be given to understand that the adjuster occupies that position.

When intricate legal questions arise neither agent nor adjuster should attempt to settle them. For instance, a loss occurs on mortgaged property in which two or more parties are interested. Extreme care should be taken that nothing is said or done to commit the company to any opinion. Should the loss be paid to the wrong party it might be necessary to pay it again. So an official might very easily waive some important matter, to the detriment of the company. Refer all complicated questions to the home office.

## ARBITRATION AND APPRAISAL.

These terms are used indifferently by writers on Insurance. Nearly all policies of Insurance provide that in cases of disagreement as to amount of loss or damage, the company shall choose one arbitrator and the assured another, and they two shall select an umpire, and that the matter shall be submitted to these three for a decision. Some policies contain a provision that this decision shall be binding. But the companies have no right to make any such positive provision. The established courts of the land are the final resorts in cases of disagreement and they will not permit any person or organization to usurp their functions. The companies which print this clause are perfectly aware that it is not legally binding. It is not found in any standard policy form. The usual wording of the standard policy clause is, "shall be conclusive and final upon the parties as to the amount of loss or damage, and such reference unless waived by the parties shall be a condition precedent to any right of action in law or equity to recover such loss."

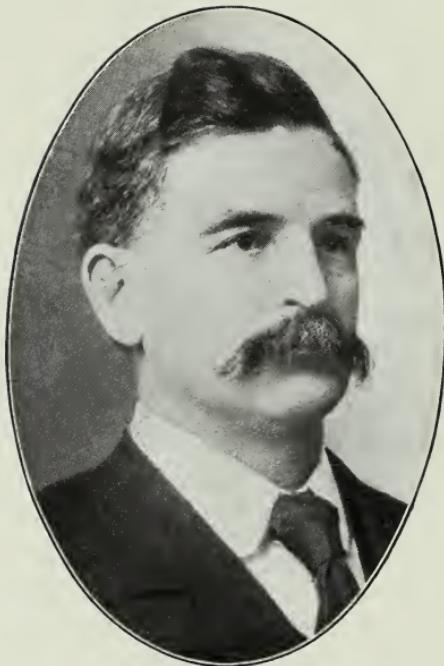
The courts will not, however, disturb an award unless some real fraud or injustice can be shown. If there is fraud on the part of an appraiser, or if the award is grossly unjust, the courts will set it right. But as said above, the arbitration is a condition precedent to such suit.



### **RICHARD F. BARRETT, CONCORD, MASS.**

Mr. Barrett started as an office boy with the old Middlesex in the historic town of Concord, Mass., under his father, the late Capt. Richard Barrett, who was chosen to the position of secretary and treasurer shortly after his return from service in the late Civil war. The business of the company was so small that they succeeded in doing the work for a number of years without help. (the subject of our sketch has often stated that his father did most of it). In 1887 he was chosen secretary and treasurer to succeed his father; in 1896 president and treasurer, which position he still holds.

With the blood of several generations of fighters in his veins, it is no wonder that Mr. Barrett is one of the aggressive and successful Mutual Insurance men of the United States.



### **C. F. MINGENBACK, McPHERSON, KANSAS.**

Mr. Mingenback has been for several years the secretary of the Farmers' Alliance Insurance Company, of McPherson, Kansas, one of the largest Mutuals in the United States. He has devoted himself to two objects, the building up of his own company and the advancing the cause of fraternity as a means of aiding human progress and of increasing human happiness.

**SUNDRY CAUTIONS.**

Arbitration is generally concerned with damages. When there is a proposition to arbitrate a total loss, an agreement to do so might waive the right to appeal to the courts. In such cases an attorney should be consulted.

Arbitration is always resorted to as a defense, by the company if it thinks that the loser demands too much; by the policy holder if he is dissatisfied with what the company offers him.

With the Mutuals the arbitration proceedings are generally more of the nature of an adjustment than anything else. There is rarely any trouble.

Sometimes, an adjuster or an agent, will tell the loser that there is a flaw in the policy and that the company is not liable. This waives all arbitration on the part of the company. The matter can be taken directly to the courts which will settle all questions.

This same principle will apply when it is claimed that by some act the assured has voided the policy. These are questions for courts and juries. They are generally questions of law and fact, not estimates of amounts of damage.

The honest policy holder, who has carefully observed the contract will have little trouble in case of loss. If the arbitration is wrong the courts will set it right.

Though a policy requires the arbitration of the amount of loss when requested as the condition precedent to liability, suit may be maintained both to set

aside an award and for a recovery on the policy. But such an arbitration is a condition precedent to suit.

*Vincent vs. German Ins. Co., Freeport, Ill., 94, N. E. Rep., Iowa.*

In some states it is a statutory provision that no person shall be chosen or act as referee, against the objection of either party, who has acted in a like capacity within four months and this clause is printed in the standard policy.

#### **LOSSES NOT OFTEN CONTESTED.**

Insurance companies generally avoid collisions with their policy holders whenever they can. The amount of contested losses, as shown by the reports to the state departments, is much smaller than is usually supposed, and it is but trifling in the case of mutuals.

The proportion of loss claims resisted in court is also smaller than is generally supposed, and would be still less if people would read their policies and use a little care in keeping the contract. When the conditions of the policy are violated, the contract is broken and in case of loss it is plainly the duty of the company to resist the payment. Incendiaryism or any form of fraud should be fought to the bitter end. This of course refers to respectable companies, for there are a few which have gained an unenviable notoriety by refusing payment whenever they saw an opportunity to bulldoze or cajole the loser out of his money. These companies have found this course profitable. They have encouraged over-insurance

with the view of resisting the loss if any should occur, and they are largely responsible for the valued policy laws and similar legislation.

#### THE POSITION OF MUTUALS.

Mutual companies are legally and morally bound to pay all legitimate losses in full and the same obligation rests upon them to contest all frauds. The money which the stock company handles is its own; it pays or not as it sees fit. The money which the Mutual handles is not its own, but is held in trust for its policy holders. It has no right whatever to pay out wrongfully, no more than it has to withhold in case of genuine loss.

If the agents are faithful in doing their duty, if they reject all doubtful and undesirable loss claims, if they avoid over insurance and keep a sharp lookout for frauds generally, if the policy holders would lend their assistance, there would be but few resisted loss claims among the Mutuals.

Statistics on this matter are not easy to obtain. The reports are not full. But in the year 1903 there were in the States of Connecticut and Massachusetts sixty-three Mutuals, of which five show small losses resisted. At the same time there were in the same states, eleven joint stock companies, of which ten show losses resisted, showing a proportion of eleven to one in favor of the Mutuals. That is probably not far from the average. This shows that the Mutuals are fairly conducted and that their officers act their part faithfully. They should have due credit.

The class Mutuals have the least trouble with adjustments. Each has only one class of losses to deal with, the line it insures, and all its officers are experts. There is very little probability of working through a fraudulent scheme, as any attempt at over insurance would be detected at once.

Adjustments in cases of loss by hail and loss of live stock by lightning are treated in the chapters relating to those subjects, to which the reader is referred.

#### PECULIAR QUESTIONS.

Insurance men not unfrequently meet the question whether certain fixtures, pieces of machinery, etc., are parts of the building, and hence real estate, or whether they are personal property. The prevailing rule is that whatever is built in with the structure so that material changes will be required to permit its removal is real estate. Engines, boilers, line shafting, water wheels, and similar constructions would be so considered. Shelving, counters, etc., if permanently attached, are part of the building.

But machinery, simply set on the floor, fixtures attached by nails, and all articles of that kind are personal property. The distinction is sometimes made by stating that whenever the removal of any object injures a building, that object is real estate, otherwise, it is personal property. Of course, the injury must be visible as such, and must be enough to be noticed. The mere withdrawing of a nail is an injury, but it is trivial, and such as can not be avoided. Another test is what the tenant brings with him

with the expectation of removing at the expiration of his lease is personal property. So machinery put in by the owner of the building which may be changed or removed from time to time, is personal property, while the line shafting, which runs these machines might be part of the building. Small portable engines and the accompanying shafting are personal property.

If each building is fully described in all its parts and if machinery is specifically mentioned, there will be no confusion on these matters.

## CHAPTER XII.

### OVER INSURANCE.

#### DIFFERENT CLASSES.

This vexed question has been discussed from the earliest days of underwriting down to the present. And so long as old Virgil's "cursed thirst for gold" shall survive, so long will the subject still remain to perplex. It is by no means simple, on the contrary it is many sided. Over insurance may arise from criminal intent of the assured, the policy being secured by misrepresentation, the insured having in mind a deliberate plan to burn the property for the sake of the money to be received. There are professionals in this line. They generally deal in stocks of goods. They open a store in some city, stock it well, insure it heavily. They make a show of doing an enormous business, but in reality goods sold are not replaced, the valuable part of the stock is surreptitiously shipped out, and in due time the fire occurs. The loss is paid and the criminal goes to a distant state to repeat the performance perhaps under another name.

There is also the over insurance arising from the greed of agents and the rapacity of the company. Knowing by experience that only one man in forty has a loss, companies wink at or even encourage the

agent in putting on the property all the Insurance the owner can be induced to pay for. The company gets a large premium and the agent a big commission. So long as no losses occur this fraud goes on undetected, but when a fire does take place there is generally an attempt on the part of the company to resist payment, a refusal to deliver the indemnity paid for, and very often a law suit.

There is a third class of over insurers, the happy-go-lucky people who always over estimate everything of their own. Men of this kind are pretty sure to be insured for all their property will bear. But while they are generally happy they have fits of despondency and then they lose all interest and while they would not think of purposely setting their property on fire, would not care very much if in some mysterious way it should go up in smoke, which it often does.

There is also the big house built in the boom days. It brings no rent, the tenant keeps up the two or three rooms which he occupies and the rest go to rack and ruin. There is a big bill of repairs looming up in the near future and—well it burns and that settles it.

This is on the same line as the conflagrations in street car barns, so frequent among companies which have just replaced their old rolling stock with new. It is singular how rarely any but old cars happen to be in the barns when they are burned.

**REMEDIES--VALUED POLICY LAW.**

Beyond and back of the company, its agents, and the over insurance stands another party in interest—the great mass of policy holders, honest active men on whom the burden of supporting the company is laid, and on whom falls as a matter of course the great expense of all the frauds. What shall be done for them and their protection?

The first answer to this question was the valued policy law. The law provided that the amount stated in the policy shall be the value of the property in case of total loss, and the companies must pay it in full. The object of this is to compel the companies to be careful in the selection of their agents, and to use caution in accepting risks. As has been said above there are companies and agents whose practice is exceedingly loose, why should they not be held up to their contracts and made to pay as they agreed to? Located in distant states and chartered under laws perhaps of still other states, these companies are difficult to reach, the valued policy law is supposed by many to be the best means of reaching them.

**A WRONG POSITION.**

There are those who openly defend the loose way of doing business which has just been described. In the Underwriters Review, Feb. 10, 1904, occurs the following paragraph:

“The essence of fire underwriting is and always has been everywhere to provide indemnity, i. e., to replace the destroyed property or pay its equivalent

in money. The argument of the advocates of the so-called valued policy law seems at first thought plausible, viz:—that if the companies insure property for more than its actual value, it is their fault, it being claimed that the agent or some representative of a company should carefully appraise the value of the risk taken. This supposes an impossible achievement, unless the companies are to increase the premiums charged to a point which would simply be unendurable to the insured. The companies get their business through their local agents, few of whom are expert judges of the value of buildings, and some of whom are more than willing to insure a patron for any amount, for the larger the premium the greater the agent's commission. What would it mean to have valued by a competent representative every building insured?"

This put into plain English means that the companies shall not be responsible for the acts of their agents. This is contrary to common law, common custom and common honesty. No other class of business men make that claim regarding their agents. Some tried it about a score of years ago, and the result was a popular uprising all over the country and a grist of savage laws, which while well intended, were disastrous in their operation. Nor is the paragraph true. There is a cubic foot rule with regard to dwellings in use by most companies which is found satisfactory. Any agent possessing good ordinary sense can easily ascertain the value of business

blocks, etc., in his own town or city. The difficulty imagined in the paragraph does not exist. The best old line text books do not admit it.

The valued policy laws of several states are given. It will be seen that they attack every position in the quotation above. Some demand that the very appraisal declared impossible to the agent shall be made, some that the excess premium be returned, some that the company shall pay in full and some inflict a penalty for over insurance.

#### **LAWS OF THE STATES.**

The object of these laws is to prevent willful and deliberate over insurance by the companies through their agents with a view to extorting an excessive and dishonest profit. This practice originated many years ago and while it was not universal, there were companies which made it the rule rather than the exception. The evil increased rather than diminished until nearly twenty years ago an organized effort was made to do away with it. The so-called valued policy law was passed in Vermont and New Hampshire. The uproar was immediate and tremendous. The outside companies at once withdrew from these states. But home companies were at once organized to take their place and the bluster amounted to naught. The companies finally gave up their fight and returned to their former conditions. Since that time several other states have passed similar laws, and the drift of opinion seems to have been in their favor until lately, not as a complete remedy

for the evil but as doing something to suppress it and as the only remedy they happened to think of.

Under the system of over insurance as it then prevailed the agent increased his commissions and the company their gains, both worked in harmony to rob the policy holder. It is at this practice that most of these laws are aimed. Of these quoted, Mississippi and West Virginia make the amount of the policy the measure of damage, Wisconsin and Nebraska follow the same line. Kentucky included live stock, New Hampshire, excepts fraudulent over insurance. Delaware makes the valuation of the property a part of the contract. Ohio and Minnesota require an actual examination by the insurer or his agent, such agent to fix value, which is conclusive. All these aim to destroy the profit of over insurance by making the company pay the full amount of the policy. Massachusetts takes an entirely different line. That state aims to destroy all profit from over insurance either to the company or to the policy holder and punishes the company therefor. This is an excellent law.

#### OPPOSING OPINIONS.

Of the effect of the valued policy law it is not easy to speak in positive terms. There are men of the opinion that it has had a tendency to make some companies more careful in the acceptance of risks. That is probably true. But if the incendiary can effect his Insurance more easily, then the valued policy law works to his advantage. And if the agent be greedy and for the sake of commission overvalues

property, he makes matters worse than they were before. Where this law exists with no provision for punishing over insurance and with no fire marshal system, the effect has been bad. That seems to be the general opinion. Mr. C. S. Collins of the Arkansas Mutual Fire Insurance Co. of Little Rock, Arkansas, writes that the valued policy law in that state "has not only not reduced but has increased losses and incendiarism. Dishonest agents co-operate in procuring over insurance. A loss follows and the thief hires his attorney and hides behind his valued policy." Other Insurance men express the same opinion.

The law is one sided; it does not reach the agent nor the policy holder. The Massachusetts law is much better. But in order to reduce the evil there should be a careful inspection of risks by the company and a cancelling out in cases of over insurance and also an inspection of every suspicious fire by a state officer and a prosecution for incendiarism whenever the evidence warrants.

#### **LAWs QUOTED.**

Arkansas says: "A fire insurance policy in case of total loss by fire of the property insured shall be held and considered a liquidated demand against the company taking such risk for the full amount on which the company charges or collects a premium; provided, the provision of this act shall not apply to personal property."

New Hampshire says: "If insured buildings are totally destroyed, the sum insured shall be taken to be the value of the insured's interest therein, as such interest is described in the policy, unless over insurance therein was fraudulently obtained; if they are only partially destroyed the insured should be entitled to his actual damages, not exceeding the sum insured."

Kentucky says of fire and storm risks on real property: "The company is liable for the full estimated value as fixed in the policy. In case of partial loss the liability shall not exceed actual loss. In case of death of live stock, the liability is for full estimated value as fixed in the policy. Fraud in fixing the value of property is criminal."

Nebraska says: "Whenever any policy of Insurance shall be written to insure any real estate property in this state against loss by fire, tornado or lightning and the property insured shall be wholly destroyed without criminal fault on the part of the assured or his assigns, the amount of Insurance written in such policy shall be taken conclusively to be the true value of the property insured and is the amount of loss and measure of damage."

Wisconsin says: "Whenever any policy shall be written to insure real property and the property insured shall be wholly destroyed without criminal fault on the part of assured or assigns, the amount of the Insurance written in such policy shall be taken conclusively to be the value of the property when insured, and the true amount of loss and measure of damage when destroyed."

Mississippi forbids knowingly issuing any fire Insurance beyond a fair value of the property. In case of total loss the damages shall be the amount for which the property was insured; in case of partial loss the measure of damage is an equal amount to the damage done to the property not to exceed the amount written in the policy. This does not apply to personal property.

West Virginia says: "All fire Insurance companies doing business in the state shall be liable, in case of total loss by fire or otherwise, as stated in the policy on any real estate insured, for the whole amount of Insurance stated in the policy of Insurance upon said real estate; and in case of partial loss by fire or otherwise, as aforesaid, of the real estate insured, the basis upon which said loss shall be computed, shall be the amount stated in the policy of Insurance effected upon said real estate and the insured shall have the right to enforce his claim for said loss in any court having jurisdiction."

Delaware says: "Every such policy, whether hereafter issued or renewed, shall have endorsed across the face of it the following: 'It is agreed between insurer and insured that the value of the insured property is of the sum of \$---- and this estimate shall be binding on both parties as to value; provided, however, that nothing herein contained shall in case of loss prevent the company insuring from adjusting the loss by replacing the property destroyed, and in case any owner shall effect any subsequent Insurance upon any larger value than so agreed upon, all Insurance, as well that then

existing as that subsequently obtained, shall become void.' This act applies to all policies issued on real property."

Ohio says: "Any person, company or association hereafter insuring any building or structure against loss or damage by fire or lightning, by a renewal of a policy heretofore issued or otherwise, shall cause such building to be examined by an agent of the insurer and a full description thereof to be made and the insurable value thereof to be fixed by such agent; in the absence of any change increasing the risk without the consent of the insurers, and also of intentional fraud on the part of the insured, in a case of total loss, the whole amount mentioned in the policy or renewal upon which the insurer received a premium, shall be paid; and in case of a partial loss the full amount of the partial loss shall be paid; and in case there are two or more policies on the property each policy shall contribute to the payment of the whole in proportion to the amount of Insurance mentioned in such policy, but in no case shall the insurer be required to pay more than the amount mentioned in the policy."

Minnesota says: "Any person, company or association hereafter insuring any building or structure against loss or damage by fire, lightning or other hazard, by a renewal of a policy heretofore issued or otherwise, shall cause said building to be examined by the insurer or his agent, and a full description thereof made, and the insurable value thereof to be fixed by the insurer or his agent, the amount of which shall be stated in the policy of Insurance.

In the absence of any change increasing the risk without the consent of the insurer, and in the absence of intentional fraud on the part of the insured, in case of total loss, the whole amount mentioned in the policy or renewal shall be paid; and in case there are two or more policies upon the property, each policy shall contribute to the whole or partial loss in proportion to the amount of Insurance mentioned in each policy, but in no case shall the insurer be required to pay more than the amount mentioned in the policy, provided that in the absence of fraud, the burden of proof to show an increase of risk by reason of any change in the ownership or condition of the structure or building upon which Insurance is effected, either before or after loss arises, shall be upon the insurer, anything in the application or policy of Insurance to the contrary notwithstanding. And any person who solicits Insurance and procures the application therefor shall be held to be the agent of the party thereafter issuing the policy upon such application, or renewal thereof, any thing in the application or the policy to the contrary notwithstanding.

“Whenever any company willfully insures property for more than its real value it shall forfeit to the state school fund double the premium collected on such policy.”

#### A GOOD LAW.

Massachusetts says: “No Insurance company shall knowingly issue any fire Insurance policy upon property within this commonwealth for an amount which with any existing Insurance thereon exceeds a

fair value of the property nor for a longer term than seven years. If buildings insured against loss by fire and situated within this commonwealth are totally destroyed by fire, the company shall not be liable beyond the actual value of the insured property at the time of loss or damage, and if it shall appear that the insured has paid premiums on an amount in excess of said actual value, the insured shall be reimbursed the proportionate excess of premiums paid on the difference between the amount named in the policy and said actual value with interest at six percent from the date of issue; and said excess of premiums and interest thereon shall be allowed the insured from the time any company or companies carrying said Insurance at the time of the loss have continually carried the Insurance on the destroyed building or buildings, whether under policies existing at the time of the loss or under previous policies in the same company or companies." The penalty for violation is a fine of not more than \$500.

#### OTHER PROVISIONS.

There are three-fourths value clauses issued by some companies. These vary in form but the substance of all is that the company shall not be liable in case of total loss for more than three-fourths of the actual value of the property destroyed. This makes the owner carry one-fourth of the risk himself and is an incentive to him to take good care of his property. Many companies say it works well.

The valued policy law deals only with the company, it endeavors to suppress over insurance by making it unprofitable to the insurer. Alone it is of little or no efficiency. A state fire marshal is expected to render incendiaryism dangerous by his diligence in investigating all fires of doubtful origin and bringing criminals to justice whenever possible. He is generally required to inspect dangerous places especially in the so-called congested districts of the large cities. In every state where there have been fire marshals, the result has been a material saving, a great reduction of fire waste. It would seem easy to set a building on fire and escape detection. As a matter of fact it is difficult, especially in larger cities where the fire department generally arrives a few moments after the alarm is given. Firemen generally form a pretty correct idea as to where the fire started and how it originated, especially when the blaze is extinguished before it has done much damage. Incendiaries always plan for a total loss, if this does not occur their arrangements are exposed.

#### **AN INCENDIARY FIRE.**

An illustration will best show this. Some years since a merchant in a large city put in an enormous stock of clothing, insuring it heavily. For about six months everything went on apparently as in other stores, but one night there was an explosion in the store, flames shot out through cracks and crevices in every direction. The fire department were on hand and put out the fire at once and discovered a lighted candle on the top of a small stove and a broken gas

pipe in the ceiling above. The owner had wrenched off the pipe expecting the gas to fill the room, explode when it reached the candle and then set everything on fire beyond the possibility of extinguishing the blaze. It was a shrewd scheme but it failed, the fire was put out. An inspection showed that most of the stock had been surreptitiously removed. The owner was never heard of. A warrant was issued but the officers failed to find him. No Insurance was ever paid.

#### FIRE MARSHALS WANTED.

In such cases the fire marshal can do good service. He is an expert policeman in his line and an expert is what is wanted.

North Carolina, Maryland, Ohio, Pennsylvania, Rhode Island and some other states have fire marshals with full powers. They must investigate all fires and all fires must be reported to them. They may enter buildings, summon witnesses, take testimony, etc., and it is their duty to cause the arrest and trial of suspected incendiaries. Reports from these states show a large reduction in the number of fires of incendiary origin. They have sent several incendiaries to the penitentiary. Alabama makes the sheriffs fire marshals with power to summon juries, etc.

Maine has inspectors of buildings in towns of over 2,000. Municipal officers must inspect fires, under the supervision of the Insurance commissioner who has ample power. This system seems to work well. New Hampshire has a similar system.

None of these makeshifts are as fully effective as a fire marshal. The officers are not expert on the line of fires and most of them are occupied about other matters. Insurance companies should urge the establishment of this office in every state. The fire marshal would far more than save his expenses.

The fire patrols in large cities must not be confused with fire marshals, they are merely associations for the purpose of saving goods from burning buildings. This subject is treated more fully elsewhere.

#### **EXAMINATION OF RISKS.**

The valued policy laws and the action of the fire marshal do not have effect till after the fire. There is a growing custom among the Insurance companies to inspect their risks occasionally and thus discover cases of over insurance in advance and cancel the policies. This is effective and one after another of the companies is adopting it.

The result of these inspections has been to bring to notice cases of over insurance and also to discover dangerous exposures, bad constructions and liabilities to fires, and cause them to be remedied. The saving in these lines more than makes up for the cost of the inspection.

#### **RECORDS OF INCENDIARIES.**

It is sometimes advantageous to know the record of persons who wish to insure or who have had a loss. These records can generally be obtained from the great detective associations when their services

are needed. Their address can usually be obtained from the banks. These companies do only a legitimate business. They will find where the evidence is and what is wanted and report it but they will do no more. They will not manufacture evidence nor will they go upon the stand to testify. The common detective who swaggers around the loafing places in small towns should be shunned. He is utterly unreliable and generally unprincipled besides.

#### **REWARDS.**

Offering rewards for incendiarism has proved effective. The Lykens Valley Insurance Company of Elizabethville, Penn., prints the following:

“Resolved, That the executive committee be and is hereby authorized to offer, and the Board of Directors agrees to pay a reward for the detection and conviction of any incendiary or incendiaries setting fire to any property insured in this company, said reward to range from ten to two hundred dollars at the discretion of said company, and be based upon the amount insured on the property so fired.”

Mr. James Miller has been secretary of this company for thirty-four years and is therefore competent authority. He says that “this notice goes out from the office so that every insured person can read it.”

They also attach clauses limiting the liability of the company and compelling the insured to carry twenty or twenty-five percent of the risk himself. Mr. Miller says, “This and the incendiary clause are both good in their way and because we use both to save the company we cannot tell which is most effec-

tive, but I believe both to be good things to keep the insured as honest as possible. I know there are knockers against these three-fourths and eighty percent clauses and these are the very ones I do not trust. People will make money out of an Insurance company if they can and it cannot always be prevented even if these clauses are on the policies." Mr. Miller favors a state fire marshal.

#### SOME RECOMMENDATIONS.

The investigations of this subject seem to show that there should be a penalty on the companies for over insurance. The Massachusetts law seems excellent. It prevents payment of more than the actual loss in case of fire and destroys the profit of over insurance to the company, adding a penalty for the guilty officials. But it is only effective when brought to light by a fire. The great mass of over insurance by greedy agents would still go undetected. An inspection of risks would reach most of this. The commissioner of insurance could deal with companies habitually guilty by causing the fire marshal to look after them. Honest companies wishing to do only a legitimate business will employ their own inspectors who will see that every policy holder carried a part of his own risk. These measures with the rewards spoken of above will reduce over-insurance and incendiarism to a minimum.

Mutual companies have suffered but little in comparison from over insurance. Their care in taking risks, and the general watchfulness of the membership have so guarded them that cases of over

insurance have been extremely rare, besides most Mutuals adopt a plan of valuation for houses and barns, so much per cubic foot, according to style, age, etc., and this does away with nearly all opportunity for over insurance, whether intentional or not. Most country dwellings will take a rate of six cents per cubic foot. Those just built or finished more elaborately than usual may be rated one or two cents higher. This illustrates a plan which is equitable and satisfactory in nearly every case. But as the companies increase in strength and in business, evils will be sure to appear. Only the strictest vigilance will suppress over insurance and incendiariasm.

#### THE RIGHT KIND OF AGENT.

Last of all to be noticed, but of most importance is the agent. If the agent is intelligent and conscientious he can do more than all state laws and state officials put together. What kind of a man should such an agent be? Subjoined is a letter received by a Mutual Insurance company. From it the reader will get a better idea of a model agent than any description could possibly give. Names and dates are omitted:

“Dear Sirs:

“Your favor of the —— is at hand with reference to renewing your —————— policy. In reply will say that this party called at our office some time ago and inquired as to the largest Insurance that I would let him have on his buildings. This kind of a

question aroused my suspicions a little bit and in cross questioning Mr.-----, he stated that he had been burned out three times, as I remember it, so that I did not consider the moral hazard very good. He advised me that he could get more Insurance on his buildings than I offered him, which was in accordance with your rules, and I supposed that he had gotten his Insurance elsewhere. Mr. ----- may be all right, but putting all the facts together I do not believe the risk would be a very desirable one.

“Yours respectfully,

“-----.”

It seems settled that no one method is effective alone. There is a unanimity of testimony in favor of the state fire marshal, provided the office can be kept out of politics. One official in Ohio has succeeded in bringing to justice a gang of incendiaries who had been operating for twenty years and who had cost the Insurance companies \$250,000. In other states the reduction of losses has been immense. Probably the Massachusetts over insurance law as given above would also be desirable. In addition a thorough system of inspection by the companies should be undertaken. This should be the joint work of all the companies occupying any given territory. The inspectors should look for over valuation, and for dangerous places also. It has been proposed that this work be done by the states, but in dealing with corporations the state is generally a grafted. Its charges are extortionate and its services poor, and as long as the

companies can be made to furnish revenues to needy statesmen it may be confidently affirmed that they will be allowed to make profit enough to pay their taxes at least.

Nothing in the way of legislation can take the place of the fair dealing and intelligent agent. He and he only is the final solution of the whole problem.

## CHAPTER XIII.

### CLASSIFICATION OF RISKS.

This is deciding upon the comparative probability of loss in the different kinds of buildings, etc., which companies are called on to insure. It is based upon long experience and careful observation. In each policy, or in the application therefor, is an accurate description of the property insured. These descriptions have been sorted over and classified and a record of the losses in each class has been faithfully kept. The process has been going on for a century or more.

The number of risks taken into account is enormous, so great that according to the well known law of averages the results may be considered certain and positive. They furnish a reliable basis for business computations. Insurance companies are perfectly safe in using them in calculating their table of rates. Were there not some such law of average no Insurance would be possible, any attempt to furnish indemnity would be but the boldest gambling. What this law actually is no one knows, nor how it works, only that it actually exists. So the trees in the forest seem to be placed purely by chance, yet every surveyor has learned that they are located by some law, he knows not what, and that the number of trees to

the acre practically limits the length of the straight line he can see. In fact there seems to be no such thing as chance in the universe, if only a sufficient number of instances are taken, certainty will result. This holds true in the case of fires.

#### ILLUSTRATIONS.

Now as to risks. A business block in the ordinary small town will illustrate. The corner building, a brick, is exposed on one side by the next building, on the other is the open street. If that street is eighty feet wide, there is very little probability that a fire would cross it. The exposure would hardly be considered. If the street is only fifty feet wide there is a chance that a blaze on the other side might set the corner building on fire and there would be an extra risk which would be charged for. Again, if in the side wall of the building under consideration were several windows, in the lower and second stories, the risk would be greater than if there were a solid brick wall. If the building were frame the exposure would be enormously increased, and a frame block would make it still worse, so much so that the annual cost of insuring such a structure with its contents would go far towards paying the interest on the cost of a brick or stone building.

Again in a brick block each building is exposed to danger from the other. If the walls between the buildings are only twelve inches thick, they will not be safe, but if they are sixteen or twenty four inches thick they will be effective. A wall three feet high

above the roof reduces the risk much below what it would be without it. The roof itself is to be considered. If of shingles, it is much more likely to take fire than if of metal or slate. The companies would raise or lower the rate accordingly. The internal structure of the block is to be considered. The thickness of the walls has been alluded to, are these walls solid or are there doors from one building to another? Is there a stairway for each building or does one stairway answer for two or three buildings. How are the openings protected? If by common doors the danger is materially increased, if the doors are standard fire proof constructions, the increase is very little. Then the heating system comes in, the telephone wires and no end of complications beside, before the risk on the building is fully and finally decided so far as its own construction and exposure are concerned.

#### **FIRE DEPARTMENTS.**

Then there is the probability of extinguishing fire. The water supply must be taken into account. If there are city water works, plenty of apparatus, a paid fire department, the probability of a conflagration is reduced. If one or more of these may be absent, then the danger increases. In "unwatered" towns the risk is much greater.

#### **CONTENTS.**

The contents of the buildings must also be looked after. "Preferred stocks," groceries, general merchandise, etc., do not increase the rates, but most

manufacturing does. The number of tenants has an influence on the risk as well as who they are. The proprietor's family would not generally be held to increase a risk, but it may be otherwise with a tenant.

The contents of the building also have their ratings. These depend on the probability of their taking fire and also on the probability of being injured by water. Then the probability of getting the stock out in case of fire is an important factor. A stock on the ground floor which is easily handled is much less liable to be a total loss than the same stock on the second or third floor or a stock of goods on the ground floor, but too heavy to handle.

There is still another matter to be considered, the probability of aid in case of fire. People often wonder why the town dwelling house and contents get more favor than the same style of building in the country. The reason is that in case of fire in town there is a large force ready to help put out the fire and save the contents of the building, while the country dwelling is generally at a distance from all such help and is much more often a total loss.

The probabilities vary not only in different towns and cities, but sometimes in different parts of the same state. There have been cities and towns where there was a law defying element which rendered it unsafe to insure property and from such the Insurance companies were obliged to withdraw entirely.

The work just described is done by men who make a specialty of it. They have cultivated their powers of perception till they are able to see the

dangers which increase the risks and when they persuade people to remove the cause of dangers they do a service to the public. This is often the case with defective electric wiring. Ignorant or careless workmen leave dangerous constructions. These the inspector discovers, and threatens to rate the building accordingly if they are not made safe. Usually the expense of this is trifling. So in the case of exposures, a very small change in the protection may save many dollars in Insurance.

The agent should study all these risks and the ratings and should think out the reason for the differences. He should be able to recommend changes which will reduce the risk. Sometimes, a very little thing may make a great difference. An agent inspecting a building found electric wires crossing so that the risk was extra hazardous. He was quick witted and taking a piece of discarded rubber belting he invented arrangements which removed all danger. This is an example for others to follow.

#### NO INCREASE OF RATES.

A mistaken idea has become current that these men combine to increase the rates. This is incorrect. They do not fix rates, they only carefully and accurately describe the property and compute the probabilities of loss and leave the fixing of the rates to the various boards.

They have reduced rates instead of increasing them. They are not in the employ of any company but sell their information just as the mercantile com-

panies sell theirs. As they sell their descriptions many times over they can afford to take a very low price. If each company were obliged to get up the description for itself the cost would be enormous. The first list would cost in the average state anywhere from ten to twenty thousand dollars and it would cost from three to six thousand dollars a year to keep them up. In the larger states the cost would be increased in proportion. No small companies could stand such an expense, they would all be driven out of business or else would be obliged to resort to the old practice of charging a survey fee as was done before this system came into general use.

In either case the great companies would absorb the business, and the result would be an immense fire insurance trust.

As was said above, the classification of risks is not setting prices on indemnity. That work is done by the local boards composed of the agents of the fire insurance companies. Occasionally companies do not go into these boards but fix their own rates. These are known as non-board companies. There are such companies doing business in nearly every vicinity. They generally use the same classification as the others.

It is not possible to compile a list of rates which will apply everywhere in the United States. While a first class town or city is described in nearly the same terms all over the country, and the same is true of a first class building, and of the other classes of buildings and stocks as well, the actual rates as

charged by the companies vary widely in different states and sometimes within the same state, northern Michigan and northern Wisconsin taking different rates from the southern portion of the same states. Some of these variations seem to be caused by difference in climate, the longer winters in the northern states causing greater risks from stoves and furnaces and consequently requiring advanced rates. In other regions the increased hazard from prairie or forest fires has to be charged for, while in some portions of the country an uneasy social condition causes hazards which must be taken into account. Nearly everywhere, however, the local rates have become tolerably well known and it is safe to follow them till experience shows where they can be changed for the better.

#### **THE MUTUAL PROBLEM.**

With Mutuals the problem is to ascertain the cost of each class in each company in order that equitable rates may be charged. For example, taking a farm dwelling house as a basis what should be the advance or deduction on other classes of property. It will be found by experience that the books of different companies will show very different figures even in the same states. The only way to do exact justice in these matters is to keep a book account with each class of property insured and to adjust the rates accordingly. In this way it will be possible to furnish Insurance at cost, which is the end and object of every Mutual fire and storm Insurance company.



#### **F. J. MARTIN, SEATTLE, WASH.**

F. J. Martin is a young man of force and push. For a time he was connected with the Oregon Fire Relief Association. later he won distinction in the Mutual business at Seattle as the "push" of the Northwestern Mutual Fire Association, now connected with the National Association of Factory Mutual Insurance Companies. The statistics furnished for the Manual will be sufficient proof that Mr. Martin is one of the best informed men in the country.



### **L. R. WELCH, FITCHBURG, MASSACHUSETTS.**

Mr. Welch is the secretary of the Fitchburg Mutual Fire Insurance Company. In this position he has been pre-eminently successful. He has an abundant supply of that Yankee shrewdness, which recognizes a good thing when it sees it, and is at the same time cautious enough not to disregard old methods simply because they are old, or to adopt new methods just for the novelty.

Every agent is occasionally obliged to measure the distance between buildings. The most accurate method is by chain or rod. These are seldom at hand. "Stepping off" is the method usually adopted. The natural step used in ordinary walking varies but very little, and one can easily learn how many steps are required for twenty, fifty or a hundred feet, etc. After a little practice, a man should be able to step off a hundred feet with an error of not more than three or four inches. But if he tries to make paces of three feet each the error will probably be several times that amount. And when using the natural step no one will be able to see that measurements are being made.

#### **DEFECTIVE CHIMNEYS AND FLUES.**

These are frequent causes of fires in buildings, being outclassed only by "accidental" and "unknown." And yet all such fires could be prevented by the exercise of a little care. If chimneys are properly built they will remain safe indefinitely. Whenever possible chimneys should rest on the ground. If supported by a bracket or floor, the wall to which the bracket is attached or the floor under the chimney should be supported in such a way that it cannot possibly settle. The chimney should have no support whatever above its base. It must not rest upon the floors or upon the roof or be in any way fastened to them. If it is, it will be sure to draw

apart when the building settles as it assuredly will. Nearly all defective chimneys are defective from this cause.

Where the chimney goes through the roof the opening should be large and the flashing should be of soft tin. Then when the roof or the chimney settles, the tin will bend and there will be no break in either tin, chimney or roof. Chimneys are sometimes built with a projecting brick at each floor and at the roof. An extra rate should be charged for these. The breaks in these chimneys occur where they cannot be seen. The bricks rest upon the floor and the break takes place just under them between the floor and the ceiling below.

Holes for stovepipes should be made with thimbles and the flue stops should be so fastened that they cannot be blown out. Sometimes the artist who does the wall papering covers the stove pipe hole and forgets to put back the flue stop and collar. Where there is more than one hole in a chimney this needs looking after.

Chimneys should be cleaned out frequently. Otherwise soot will accumulate until some windy day it will take fire and there will be a veritable volcano of sparks and probably a fire in consequence.

If chimneys are smoothly plastered inside, so much the better. They will draw better, are much easier cleaned and are far safer as they are much less liable to crack.

**THE MATCH.**

The modern parlor match is exceedingly dangerous, so much so that its sale has been prohibited in New York City and perhaps elsewhere. It scatters sparks, or worse yet, the whole head flies off, setting fire to whatever it falls upon. As no others can be had in most places, these must of necessity be used. They should be kept out of the reach of children. By no means allow them to be scattered all over the house, if one is dropped upon the floor it should not be left, but picked up. There is something in matches which attracts mice and rats; see that they are kept out of reach of these animals. People who habitually carry matches should use pocket match boxes. Tin boxes are preferable for keeping matches, though any box will answer if it is in a safe place and no box is good in the hands of careless people.

**STOVES, ETC.**

Stoves should not be close to woodwork and the floor should be protected with zinc or by some other effectual method. The pipes should go directly into the chimney if possible. If they pass through partitions they should be enclosed in tubes giving good air space around the pipe. A double tube (the pipe being the inner circle) will make them much safer. These tubes should be well ventilated. The pipes should also be well wired and fastened, so that there will be no possibility of them coming apart or falling down. When the pipe is not too long it is well to rivet the whole into one piece. Long pipes may be riveted in sections.

The make of the stove is important. The doors should have latches which will hold. Sometimes a burning stick of wood or lump of coal in the stove rolls over against the door. If the latch is imperfect, it may let the door open and the fire may fall out upon the floor. Sometimes such doors may be blown open by an explosion of gas in the stove. The openings for cleaning out the base of the stove should be closed by a cover which can be latched or buttoned, so that it cannot be blown out, and the pipe should be securely fastened to the chimney for the same purpose.

Ashes should be put in metal receptacles and allowed to stand till they are thoroughly cool before they are finally disposed of. Wood ashes are sometimes kept in the cellar. If so they should not be kept in wooden boxes or bins. They occasionally reheat, especially when there is much unburned material mixed with them.

A black substance like gas tar will condense in pipes which are out of doors or at a distance from the stove. It corrodes the iron and combines with it very rapidly, and while the pipe retains its shape, it becomes combustible and if the soot within takes fire it will burn. To test stove pipes for this danger tap them lightly with a small hammer. The sound will indicate the condition of the pipe and if it is much corroded the hammer will go through the iron. Where there is a liability to this danger, the stove pipes should be renewed at least once a year.

Especial attention is called to this matter. A stovepipe may, on the outside, appear as good as new but may be corroded on the inside till the original metal is entirely gone. The only safe way is to test all stovepipes frequently.

### INSPECTION BY FIREMEN.

Inspection by firemen differs from Insurance inspection in disregarding classification, a matter to which the average fireman pays but little attention. His efforts are directed to ascertaining where fires are likely to break out, and to removing the causes of danger. He looks first at the outside of the building, is it neat and in good order? How are the surroundings? Where are the ashes kept? What are the exposures? Are the chimneys above the roof in good order or is the smoke pouring out through cracks? How is the roof secured to the chimney? If by flashing, is it in good condition? If there are chimney caps, are they well secured? Are the chimneys high enough to keep the sparks clear of the roof? How are the windows, and shutters or screens? Can a draft through the house be shut off if necessary? Where is the water supply in case of fire? How are the foundations constructed?

### THE CELLAR.

Noting carefully all these, the fireman next goes inside and beginning with the cellar, examines the house, room by room. Is the cellar neat and clean or is it a receptacle for old rubbish? Is the coal oil

kept there? The gasoline? Are there paints, oils, turpentine, etc.? Is there a pile of greasy rags liable to cause spontaneous combustion? How is the cellar lighted? If it is necessary to use lamps are there shelves or brackets on which to put them, or must they be carried around? Do the chimneys run down through the cellar, and if so are the openings properly secured? Are the chimneys sound and solid where they pass through the floor? If there is a fireplace is it so secured that burning soot, etc., falling down, cannot roll out upon the floor and set things on fire?

#### **THE FIRST FLOOR.**

Next comes the first floor. Are the stoves set upon zinc or some other non-conductor to prevent setting fire to the floor? How far are they from the wall? Have they dampers in the pipe? Do the latches on the doors hold them shut, or do they fly open easily? Are they liable to blow open? Is the small door for cleaning out the back part fastened properly or is it left loose? What kind of fuel is used? Are the stoves kept clean, or are they full of soot? Are the pipes properly fastened? Do the joints match, or are there open places? Are they wired to the chimney, or are they loose and liable to fall down? Do they fit closely into the hole in the chimney? Do they go through floors and partitions? If so, are they properly secured, and do they pass through suitable metal constructions to make them absolutely safe? Will they bear a blow from a small hammer or are they rusted and rotten? How about

stove pipe holes, are they furnished with thimbles? When not in use are they closed with flue stoppers which cannot come to pieces and blow out? Is the stove pipe hole in the parlor closed with a flue stopper, or has the wall paper been pasted over it and left—and forgotten? How are the chimneys where they pass through the floor? Are there any cracks? Do they rest on the floor or are they sufficiently free that unequal shrinkage will cause no damage? Are those which rest on brackets solidly constructed? Where the pipes enter from below is there a plate of iron or stone to make sure against cracking or other accident?

What sort of lamps are used and where are they kept? Are they bracket lamps and if so, are they where the curtains can blow against them? Are the larger coal oil lamps used? The gasoline lamps? Is gas used, if so are the pipes solid and sound and accessible in case of leak? If electricity, are the wires properly insulated? Is there any place where water running down in a storm can reach the wires and make a short circuit? Is the telephone wire grounded against lightning? Are there lightning rods on the house and are they in good condition? Where are the gasoline and coal oil kept? Is artificial light kept away from them? What kind of matches are used? Are they out of reach of rats and mice? Can the children get at them? Do they use coal oil to kindle fires? Where is the gasoline stove and what condition is it in? Are there inflammable substances

about? Are the cobwebs swept down? Are the eaves troughs kept free of leaves and sparrows' nests?

#### THE UPPER STORIES.

The inspection of the upper stories is like that of the first floor as far as it goes. The chimneys should be carefully examined for cracks, the stove-pipe holes thoroughly inspected and the flue stops as well. This is more important, if possible, than are the lower floors, for in case a chimney burns out or there is an explosion and the flue stops fail to confine it, a fire might ensue which would probably get beyond control before it was discovered.

If there is a garret, what shape is it in? Look around the edges and see what is stored away there, is there a bundle of oil shades, a suit of greasy overalls, or anything else liable to set itself on fire? What is the condition of the chimney? Is it fastened to the roof so that it rests upon it? Is the mortar sound or are there cracks?

#### BAD CONSTRUCTIONS.

In some story and a half buildings the second story is made by running scantling up a few feet above the floor, then following the rafters and putting in a ceiling overhead in the center. Sometimes this ceiling has no opening. Where this is the case, it should be insisted on that an opening be made so that the chimney can be inspected where it passes through the roof. In one story buildings there is sometimes a worse construction. The chimney is

built on the joists overhead and at one end to have better support. The stovepipe is then put in position and the lathing and plastering completed so that the pipe is actually built in and there is no way of getting into the space above the ceiling to inspect the pipe or chimney. Such a risk should be declined until the defect is remedied.

This sketches an ordinary inspection. And in the average of country dwellings in over fifty of every hundred the firemen will find something to remedy. If the owners of dwellings could be induced to inspect their premises every spring and fall after stoves are taken down or put up, there would be a large reduction in fire waste and a corresponding diminution in expense.

#### **EXCEPTIONAL CASES.**

People speak of the New York fire, the Boston, Chicago and Baltimore fires as exceptional occurrences, as dangers to which they themselves are not exposed. But those who suffered in these great disasters talked in the same way before the conflagration came. Even when the fire broke out there was at first but little alarm. Not till hours or days had passed was the extent of the damage realized.

Nor are unusual and unexpected destructions confined to fire waste. The sea is swept by gales and the list of vessels wrecked and vessels never heard from surpasses all previous records. A stream is bridged. The structure is placed above the high-water mark of the oldest inhabitant. But some day the rains come and the bridge goes down the stream.

The hailstorm or tornado records show that within the areas where these storms prevail, for twenty, thirty or even forty years, certain tracts of land have been exempt, and the average loss has been below a certain percent. At great expense all this has been tabulated and mapped, but the information so gained is sooner or later set at naught by the exceptional season.

These occurrences must be taken into account if safe indemnity is to be furnished. Every one of the great fires mentioned above bankrupted Insurance companies which had unimpaired capital and good reserves, and which were considered as out of reach of all dangers. So with Insurance against storms. The cases are parallel.

The inference from these facts is that the tables which are accepted as a basis for rates in the conflagration and storm areas do not cover a sufficiently long experience, that there is still an unknown and contingent risk in addition to what has been considered the average loss. The question at once arises, what shall be done to provide for this hazard, for it is when these fearful devastations take place that indemnity is most urgently needed. In the case of storms, as in other operations of nature, man can do nothing to reduce the hazard. Those who have given the matter the most consideration recommend the accumulation of a reserve. Hail companies generally favor it, and the plan will probably be adopted. The scattering of risks is also suggested and is evidently

a prudent measure. Time is needed to settle this question.

#### CONFLAGRATION RISKS.

With conflagration risks the case is different. Something can be done to improve the character of the risk. Slow burning constructions can be adopted. Fire proof buildings are beyond the means of ordinary builders at present, but experiments now in progress seem to indicate that material may be had which, while not fire proof in the strict sense of the word, will burn so slowly that fire can be put out before it gains much headway. The style of building in vogue at present is apparently the result of a competitive contest between architects as to which can produce a structure which will burn up in the shortest time, and in which all were entitled to the highest prize. The Iroquois theater disaster in Chicago, hotel holocausts in several cities and other similar occurrences, are waking up the public to the necessity of changing the methods of construction not only for the purpose of reducing the loss of property, but for the saving of human life.

#### NEW ENGLAND MILL MUTUALS.

The example of the mill mutuals of New England, the pioneers in the work, should be followed in all other lines. The fire waste is enormous. A time of depression, after years of prosperity, is a time of fires, a conflagration risk for the local organizations. And to prevent this should be the study of every

Mutual officer and policy holder in the land. It is much cheaper to guard against loss than it is to pay for it after it has occurred, and this should be the inspiration of those who are trying to reduce the conflagration risks.

Few people who have not given especial thought to the matter have any idea of the useless fire waste of the country. It is probable that this can be reduced, and it is not too much to say that if proper means are taken a sum can be saved annually equal to one dollar and twenty-five cents for every inhabitant of the United States at the very lowest estimate.

### SPECIAL CASES.

#### GASOLINE.

Gasoline is exceedingly inflammable, and when mixed with air in the proper proportions is explosive. The force of these explosions can be estimated from the fact that a pint of gasoline properly exploded in the cylinder of an engine will furnish one horse power for an hour, that is it will furnish a force sufficient to lift 33,000 pounds 60 feet high in an hour. The result of an explosion is generally the scattering of burning gasoline in every direction and a destructive fire generally ensues.

But danger from gasoline can easily be avoided. First see that all the containers, pipes, faucets, etc. are strong and air tight, and then keep a sharp look out for leaks or breaks.

Second, keep your gasoline up high and out of doors. The vapor of gasoline is heavy and will sink,

hence it should never be kept in a cellar. Gas engines should not exhaust into a chimney but out of doors. The best place to keep a gasoline can is in a box out of doors, where the wind can blow away all the vapor. Many keep their gasoline on a porch. This does very well, in fact, it will do to keep it anywhere so that the vapor can blow away.

Third, be careful about slops and running over. Don't fill your vessels or tanks too full. Sometimes when a stove tank is filled up with cold gasoline the fluid expands as it warms and then runs over. This has caused a great number of fires. But if a slop or such run-over occurs, put out all fires and lights at once, wipe up the spilled gasoline with a dry cloth, wipe it up clean, let the air circulate a few minutes and all will be safe again. But whenever you are drawing gasoline or filling a tank, have no fires or lights about. Should the tank catch fire throw the whole thing out of doors. You will have time to do this if you work quickly.

Fourth, look out for the wind, especially when you are using more than one burner or when there is another fire or a light in the same room. A puff of wind may extinguish a burner. It will cool off and the flow of gasoline will soon form a pool beneath it. As soon as this extends below the other burners an explosion will take place.

With common sense and common carefulness there need be very few accidents from gasoline.

If gasoline is spilled, wipe it up quickly with a dry cloth and throw the cloth out of doors. This is

also the best method in dealing with a small blaze. Flour or dry ashes thrown upon blazing gasoline will do as much toward putting it out as anything else. It may also be smothered out with a wet blanket large enough to cover the whole blaze, but water thrown upon it only makes the matter worse. This applies to kerosene also.

#### COAL OIL.

Coal oil, though not so explosive as gasoline, needs careful handling, especially where there is no efficient system of inspection. Much of the coal oil sold in such localities is no better than gasoline. The highest grade of coal oil is not inflammable at ordinary temperature. It will extinguish a burning match thrust into it almost as quickly as water. But such oil is not generally obtainable. Unlike gasoline, at common temperature, coal oil gives off no inflammable vapor, or very little and when ignited, does not blaze up very quickly. But when heated, it becomes inflammable. While the great danger from gasoline is not so much in using it as having it around, the great danger from coal oil is in using it, there being very little danger in having it on hand.

The danger arises from breaking or upsetting of lamps, and the consequent flow of heated coal oil which takes fire at once, and also from the liability to overflow, and from the explosion of some kinds of lamps and stoves. The German student lamp and similar makes are perfectly safe with coal oil. The ordinary single burner hand lamp is sometimes up-

set and broken, but it is rarely subject to any other accident. If made of metal instead of glass it would be safer.

#### **LARGE LAMPS DANGEROUS.**

But the large lamps, holding from a quart to a gallon and with wicks of corresponding size generate an enormous heat. Sometimes this causes the formation of gas inside the lamp and the consequent pressure forces the oil up through the wick faster than the blaze consumes it. This catches fire and runs down over the body of the lamp and heats it till it explodes.

All coal oil burners should be kept clean. The drip cup of the student lamp should be emptied frequently and the wick kept in good condition. No accumulations of gum or filth should be tolerated. Lamps brought into a warm room from a cold one should be watched till they get warm. The heat sometimes expands the coal oil more rapidly than the wick takes it out, and then it runs over and makes trouble. Never set a lamp near a very hot stove. When buying a large lamp make the dealer guarantee it not to heat. After it is taken home and it has been burning for an hour or so, put a finger on the bowl near the burner, if it is hot enough to be uncomfortable, the lamp is unsafe, and should be returned.

Should a lamp take fire, throw it out of doors at once. Should coal oil be spilled and take fire, smother it with cloths. Do not throw water on it. Dry ashes, sand, earth or flour is splendid in putting

out all kinds of fires, from gasoline, coal oil, fats, turpentine, varnish, etc., throw it on thick. Next to this is a wet blanket, but as said above, do not throw water on such a fire.

#### **LAMPS, GAS, GAS MACHINES, ETC.**

In all lamps and other devices for producing light by combustion, a gas is burned. This is true of the tallow candle. The heat of the flame slowly melts the tallow, the wick draws this up close to the blaze where the heat vaporizes it. It is then a gas and burns as such. The main difference is in the complexity of the process, the distance between the crude material and the point of combustion and the temperature at which the tallow, oil, or whatever it may be becomes a gas. In the candle, and in the wick using lamps the whole process is in contact with the wick, while in gas machines and many so called lamps and in gasoline stoves the gas is generated at one point and burned at another.

In the ordinary lamp the gas is generated at the point of combustion and the oil is supplied by the wick. In lamps with a deep bowl, when the oil is nearly exhausted the wick has to raise it so far that it comes up slowly and the flame burns low, and the upper portion of the bowl becomes dangerously hot. To obviate this the student lamp was invented. The burner is placed at one end of a tube a few inches long and at the other is the oil in an inverted tank. As it is consumed by the burner, bubbles of air travel through the tube and into the tank, releasing a sup-

ply of oil as it is needed. Thus the oil is always cool and there is no accumulation of hot gas in the burner. Should the lamp be upset, the oil rarely runs out. The burner exhausts itself and the flame dies out in a few seconds. This is believed to be the safest lamp made. The same principle has been adopted by the makers of some styles of gasoline lamps but these are not safe, as gasoline does not work like coal oil.

There are other methods of supplying the oil or gasoline; one is by gravity, regulating the amount by a stopcock, in another, air pressure is furnished by a small pump. This pressure drives the flow up to the point where it is wanted. Neither one is safe.

The use of the wick has already been explained. The formation of the gas is now to be considered. When coal oil or gasoline is used the gas is either made by heat or is simply a mechanical mixture of air and vapor. In gasoline lamps, stoves, etc., the burner is heated to the proper point, the gasoline is turned on and lighted and then the burner keeps itself hot. This gas must be used very close to where it is generated.

When it is desired to burn gas at a distance from where it is generated, as in lighting several rooms from the same generator, conveying the gas by a system of pipes, the proper mixture of gasoline and air is secured by mechanical means. There are many inventions for this purpose and the best method of discovering the defects of any one is to ask the agents of another make. The mixed air and gaso-

line which is used in this system sometimes condenses, but if the pipes are so arranged that they drain back into the generator, this will make but little trouble. But the generator should be out of doors and in a brick or stone structure not under ground and not liable to freeze. The pipes and fixtures should be carefully put up and kept in order. If there is a leak it will betray itself by its odor.

#### ACETYLENE.

Acetylene is an entirely different affair. It is made in practice by bringing water in contact with a substance known in the market as carbide of calcium. The gas is then given off. There are several patents on machines for making acetylene but all machines either pour the water on the carbide or put the carbide in the water. The gas when it comes off is caught in the reservoir attached to the generating apparatus and forces the water out. When the water level is forced below the carbide, the production of gas ceases till it is drawn off and the water rises and again reaches the carbide.

This gas differs from gasoline vapor in many respects. It is lighter. While gasoline vapor remains on the floor, acetylene ascends to the ceiling. It is much more explosive in mixture with air and a much lower heat will ignite it. A glowing coal or even a cigar will explode it. The generating apparatus of gasoline, if kept by itself, is not dangerous. Acetylene gas machines give off heat and the apparatus may become hot enough to explode. Gasoline

will stand all kinds of shocks. Under pressure, a heavy shock will explode some forms of acetylene. The generating apparatus must be handled with much more care. It is not permitted by many companies.

The manufacturers of all lamps and gas machines advertise them as "absolutely safe." This is generally an atrocious falsehood. There is no such machine, no such lamp. Some are only reasonably safe in the hands of experts, others can be managed by ordinarily careful people, but not one is fire proof or fool proof.

Agents who have had no experience with gas machines or gasoline lamps should refer the question of their use back to headquarters.

#### NATURAL GAS.

This gas should have a pressure regulator either at the burner or at the mains. Otherwise it is dangerous and should be uninsurable. The flame of an unregulated burner may be three inches long at nine o'clock in the evening. As the other lights are turned off the pressure may increase till at one o'clock in the morning the flame may be two feet long. Insist on regulators.

Ordinary incubators are not insurable.

#### ELECTRIC LIGHTING.

Electricity is coming into use everywhere. It is not a power in itself but a mode of transmitting power and also heat. What it is, no one knows, and

while something is known about its manifestations it is evident that there is much yet to learn.

The dangers from electricity arise from insufficient, defective, or worn out insulation, overloading of wires, breaking, tearing loose, and consequent crossing of wires, or contact where there should be none. When a current is run over a wire too small for it, the wire becomes red hot, perhaps burns and sets fire to everything near it. When wires break loose as when poles blow down in a storm the currents are liable to cause heat and consequent fire.

The efforts of builders to do work too cheaply and their use of inferior material are the causes of most of the accidents which happen.

Electric work should be inspected by an expert and no inferior nor imperfect construction should be accepted.

Properly put up it is as safe as any other, but the ordinary agent should not undertake to decide that question himself.

#### SPONTANEOUS COMBUSTION.

Combustion is the burning which takes place when oxygen combines with some other substance. The heat evolved appears to be the same in quantity whether this burning be slow or fast, but the more rapidly the oxygen is absorbed the higher will be the temperature. Most substances at ordinary temperatures absorb oxygen very slowly or not at all. When heated, the absorption is often rapid enough to raise the temperature so much that the process will go on of itself. Wood and coal are illustrations.

There are substances which absorb oxygen with sufficient rapidity to develop heat and as this heat increases the absorption increases also till fire breaks out. It is with this kind of spontaneous combustion that insurance men are concerned. The most dangerous substances are the oils and fats. In bulk they are not liable to change but when a large surface is exposed to the air, especially in warm weather, they are sure to develop heat. This is the reason that greasy rags, oily sawdust, etc. so frequently cause fires. The drying of some oils is not evaporation at all, but a chemical combination with the oxygen of the air. If this combination takes place under favorable circumstances the final result will be a blaze. Hence the necessity of care in regard to these matters.

A somewhat amusing account of a fire originating in a greasy wrapper taken from a ham and carelessly thrown into a waste barrel will be found in the extracts from Mr. Atkinson's article on Protection Against Loss by Fire. It shows how small a quantity of greasy substance is necessary to start a fire.

Oiled window shades are sometimes stowed away in closets. This is never safe. If they are to be preserved they should be hung up singly and where the air can get to them. The safest plan is to burn them. Sawdust is occasionally used to absorb spilled liquids. It should be burned at once.

Hay stowed away when damp and, especially alfalfa and clover, is sure to heat. These frequently take fire, and if they do not they send up a column of

warm vapor which is an excellent conductor and attracts lightning.

Heaps of wood ashes will frequently reheat. They should not be kept in the cellar nor in wooden receptacles.

Kerosene products have no affinity for oxygen and are not liable to spontaneous combustion, at least so authorities claim.

Axle grease is largely made of petroleum products. These have no affinity for oxygen and do not develop heat. Lubricants composed wholly or in part of animal oils are dangerous. Not long since a wholesale drug store was burned. Investigation showed that the fire developed in a box of axle grease. It was probably composed of animal oils.

#### **THERE WERE NO FLAMES.**

How far the liability of the company extends has been decided by a court of the United States as follows:

The United States court of appeals at St. Paul has handed down an opinion rather novel but of vast importance to insurance companies, and decides the question as to when an insurance company is liable for fires resulting from spontaneous combustion.

The court held that "fire is always caused by combustion, but combustion does not always cause fire and while combustion may be so rapid as to cause fire that combustion is not fire until actual flames appear."

This opinion was handed down in the case of the Western Woolen Mill company of Topeka against the Northern Insurance company of London which was appealed from the federal court of Kansas which had rendered an opinion in favor of the insurance company.

The Northern had two policies of \$5,000 each on wool owned by the Western Woolen mill which went through the flood of two years ago. After the wool had been under water for eight days it was taken out and spread out to dry. Spontaneous combustion set in and while there was a strong odor of smoke and burning wool, actual flames did not appear, but the wool was ruined.

By this decision the Woolen Mill company cannot recover under their policy.

In cases which were too small to be carried to the Federal court the local courts decided the other way.

If that is established as the general rule, and Insurance companies are not to be held liable when the property is charred and there is no visible fire there will be an additional reason for watchfulness.

The loss in cases like the above will fall upon the owner who will have no recourse.

The whole subject is now under investigation and much more will be known about it when the experiments are concluded.

#### **TENANT FARM RISKS.**

On rates to be charged on property occupied by tenant farmers there is no consensus of opinion, and no rule of action. Some of the old line companies are reported as adding fifty percent to the rate in some localities, others a third and so on. Among Mutuals there is a wide difference also, and an equal lack of system. Many ignore the fact of the tenancy and charge the usual rate.

The question is not simple. It is complicated by several elements. There are two men to reckon with instead of one. If either is careless, quarrel-

some or heavily incumbered, the hazard is increased. If both are thus objectionable it should probably be declined.

The character of the tenants is of importance, and this varies with localities and surroundings. When real estate is so high as to shut out the tenant from all prospect of owning a farm, the renters will not be first class risks as a rule. On the other hand, when land can be had at reasonable prices many young men start out as renters looking forward to the time when they shall have accumulated means enough to make the first payment on a home. Such men are the best of citizens and are as good risks as any.

#### **RISKY PROPERTY.**

The method of holding such property by the owner should be considered also. If held as an investment it will probably be occupied by a first class tenant on a five-year lease. But if held for speculation only it will be held from year to year and first class tenants will not touch it. If the landlord is avaricious the risk is still worse, in fact the rented property of a skinflint owner is a very bad risk.

Especially large and fine buildings are always extra hazardous. Along in the eighties when the craze for mortgages swept over the country there were an immense number of costly buildings erected on the western prairies. Many of the mortgages were foreclosed and the property fell into the hands of non-resident owners. It was rented, but the build-

ing was a source of expense instead of revenue. It ran down, became dilapidated and a huge bill of repairs loomed up in the future when one day it went up in smoke and the Insurance company paid for it. That such incendiary fires have been common, there is strong suspicion. In all such cases, over-large or unused buildings of any kind will prove dangerous risks and should generally be declined.

A flat advance of fifty percent on the regular rate does not seem just. There are probably localities where it is a fair average advance, but generally it would be too heavy on the long leases to first class tenants and too light on the class of careless or unprincipled landlords, whose property should be declined.

Nor would the same rate fit any two localities. Perhaps the best plan it to organize an inspection division and then rate each risk on its merits invariably insisting that the company should be notified in case of a change of tenant.

Nowhere is the common sense and business ability of the agent of more value to the company than in cases such as these. He can pass upon the merits of each application far better than the home officer and his judgment will be good on nearly every case.

Neither the tenant nor the owner of tenant property must be deprived of the privileges of Mutual Insurance, but it is generally conceded that the hazard on the personal property of the tenant and the

buildings of the landlord would be less if the ownership of both were the same, and some allowance should be made for this difference.

#### **CITIES AND TOWNS.**

Cities and towns are classified according to their exposures and to the means of extinguishing fire. It is somewhat remarkable that though the prevailing winds make a north and south exposure especially hazardous, people rarely build on east and west streets, except when forced to by the crowding of large cities. This adds somewhat to the conflagration risk, but it cannot be helped.

First class cities are those which have good light and water systems, efficient police, paved streets at least seventy-five feet wide in the business portions, and a paid fire department. This means that there are police to discover a fire, a fire department ready to put it out, paved streets to make it easy to get the engine to the fire and plenty of water to use when the firemen get there. For any deficiency in these respects a deduction is made.

The second class cities must have good water supply with direct pressure, steam fire engines, paid and volunteer fire departments, otherwise as in the first class.

If the city has no water works and only hand or chemical engines and no paid fire department it drops to the third class but the business streets must be eighty feet wide.

If there are no engines or fire department it drops to the fourth class with a charge for extra exposure if the streets are less than eighty feet wide.

The basis rate in the first class is usually increased ten cents on the \$100 for the second class, twenty cents for the third class and thirty cents for the fourth class. If the streets are wider than the limit given above a small reduction is made, if narrower, an extra charge is made.

Buildings are variously classified in different cities. Class A, is generally a brick or stone building with heavy fire walls, all openings closed with heavy iron shutters, metal slate or other fire proof roof, and absolutely no outside woodwork of any kind whatever. Absence of iron doors and shutters reduces the building to the next class.

The ordinary brick building with shingle roof is another class lower.

The next class is the ordinary wooden building. This is rated the highest.

But if it is iron clad with metal roof, the rate will be lower.

A lower rate will also be given if the building is veneered with brick and has a metal or slate roof.

Then there is the exposure risk, the risk from several tenants, the risk from contents and the risk from business carried on, any of which must be considered.

#### HEATING BUILDINGS.

Three methods are used—hot air, steam and hot water. Each has its advocates, but from an Insurance standpoint there is but little choice.

Faulty constructions are frequent. The furnaces should be made so that they will not emit gas or sparks, the doors and other openings should be secure against accidental opening, the chimney should be large enough and the draught good. Where the furnace is built with the house the chimney is generally properly constructed, but when a furnace is put in a house built to use stoves, the chimney may be too small.

The furnace itself may be too small. Competing bidders, in their anxiety to get business, not unfrequently recommend too small plants. When a cold snap comes, the furnaces are over driven and the result is a fire; cause, "overheated furnace."

There should be a clear space around the furnace and in this no rubbish should be allowed to accumulate. The best constructions are enclosed in brick built on a solid foundation, with as few openings as possible. The thicker this brick wall is the safer and more economical the furnace will be.

The chimney should rest on the ground, and the connections with the chimney should be heavy and securely fastened. They should be as far from the joists overhead as space will permit, four or five feet, if possible, and then the joists and flooring should be protected by zinc. If it is necessary to place the chimney connections nearer the floor there should be a double protection of tin or zinc.

Many furnaces are placed in the smallest possible space, with no room around them and close to the floor overhead. Such hazards are excessive.

The pipes, whether for hot air, hot water or steam, should be at least six inches from any wood work. The registers should rest upon some non-combustible substance and not upon the wood. In all cases where the pipes in the cellar are within a foot of woodwork, there should be a sheet of metal interposed.

It is difficult to convince the ordinary citizen that hot air or steampipes can char wood and start a conflagration but it is a well demonstrated fact. Even blood heat will in time carbonize soft wood. Charcoal has the peculiar power of absorbing gases. It is upon this that much of its disinfecting powers depend. When its pores are filled with gases it is exceedingly inflammable, and steam heat has been known to ignite it.

#### A RECENT CASE.

A recent case will illustrate the dangers. A school house was built in a western town. No expense was spared to make the building as complete as possible. A hot air furnace was put in. The joists were 2x12 and the tin hot air pipes were run between them. The registers were placed in the wall and rested on wooden supports. So confident were the school board that their building was safe that they only took out \$2,000 Insurance on a cost of over \$4,800. Within three months they had a fire. It was but small and the loss was settled. But an inspector for the company being in the neighborhood a short time after the fire, made an examination of the

building. He at once discovered the hazardous condition of the heating apparatus. On removing the registers from their places in the side wall the surrounding wood work was found to be badly charred. The directors were given thirty days to change the hazardous construction or to procure new Insurance. Meanwhile the company only assumed liability for fifty percent of the policy rates if a fire should occur. There is not the slightest doubt that the school house would have burned within a year, had not the changes been made.

But always and everywhere Insurance men should be on the lookout for wood in proximity to heated objects. It will certainly char, and is sure to take fire if given time.

#### **PREVENTABLE FIRES.**

The state Insurance superintendent of Maine has issued a carefully classified list of fires for the year 1903. Among them the following are found: Ashes 28, burning out of chimney 95, children playing with matches 38, defective chimneys and flues 257, mice, rats and matches 6, sparks from chimneys 76, sparks from match 50, making 550 out of a total of 1960. Other states present similar figures.

Nearly every one of these fires could have been prevented by reasonable care. It is not difficult nor expensive to provide receptacles enough to hold the accumulations of ashes for twenty four hours. At the end of that time they will be cooled clear through. Coal ashes do not reheat and may be emptied any-

where. Wood ashes are still used in many households and are often kept in the cellar. If metal receptacles can be had there is very little danger in this practice, if not, they should be emptied on the ground, not in boxes or on a wooden floor.

Chimneys can be made safe. Some one should stand over the builders and see that their work is properly done. The chimneys should be inspected frequently to see if cracks develop. The flue stops should be so fastened that they cannot be blown out. Stove pipes should be so fastened when they are put up that they cannot get apart and fall down. If the chimneys are kept reasonably clean there will be little danger from sparks.

In fact, if common sense and a little care is used the fire waste of the country might be reduced by at least forty millions of dollars.

These figures are of interest to Mutuals, for it is along the line of saving expenses and reducing fire waste that the Mutuals will do their best work.

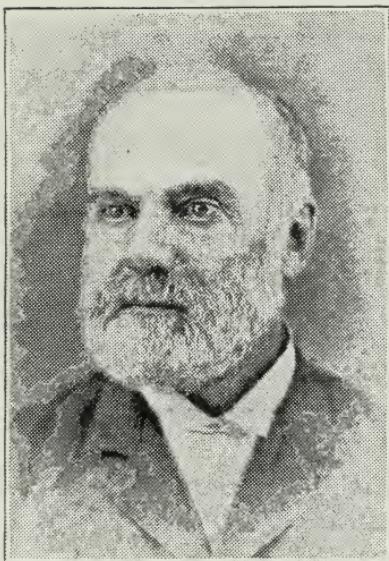
There is another cause of fires, incendiarism by tramps and discharged workmen. The tramp goes into a stable to light his pipe, or to have a smoke. The match spark smolders for a while and then the blaze breaks out. An employe is discharged. Thirsting for revenge he lays a plan to burn his late employer's property and carries it out at the cost of the Insurance company. There have been times when farmers dared not refuse the demands of tramps for

food lest their buildings should be burned. The tramp evil is much less than is was but there is still too much of it.

#### FARM BUILDINGS.

In answering the question, "What is it worth?" both agent and adjuster are frequently called on to estimate depreciations. This estimate is often a question of fact, instead of theory. The old fashioned farm dwelling with slate roof, built with heavy timbers used in days gone by, if taken proper care of is as good for all practical purposes as it ever was. Yet changes of style, relocations of market towns and of country roads may have rendered it unsalable and a bad risk at even half its cost. But otherwise, it may be worth as much as ever for the depreciation of such a building is almost nothing.

These dwellings are usually not as solidly built as the houses of half a century ago, and are liable to be racked by heavy winds. The foundation also has much to do with the matter. A solid foundation resting on rock or some stratum which does not give will add much to the length of life of a building. In some sections the surface is underlaid with a clay subsoil which swells with every rain and never resumes its former place. Unless the foundations go below this the doors and windows will need adjusting after nearly every rain. The twisting and wringing consequent on the changes in this subsoil weaken a building very rapidly. Taking all these matters into consideration it is hardly possible to fix an exact



#### **S. G. MEAD, McPHERSON, KANSAS.**

Mr. Mead is a retired newspaper man, having been in the business almost forty years. He made a specialty of sociological studies, along the line of fraternal and co-operative organizations and is an enthusiastic advocate of Mutual insurance, co-operative stores and all similar enterprises.



### **J. B. HERRIMAN, DES MOINES, IOWA.**

J. B. Herriman, secretary of the Iowa Mutual Tornado Association, the largest concern of its kind in the world, is recognized as one of the foremost figures in the field of Mutual Insurance. He has been secretary of the Iowa Tornado Mutual from its inception, and has done more than any other man to build it up to its present proud position. Mr. Herriman enjoys the confidence and affection of his associates and the respect of the public to a remarkable degree.

figure for depreciations. The range is from one to three percent annually and must be increased for the cheaper class of buildings. Barns, unless very strongly framed, will depreciate from three to four percent.

If the buildings have been carefully looked after by the owner, and have been kept in good condition, the amount expended in repairs may be deducted from the depreciation.

Buildings occupied by tenants are apt to run down more rapidly than when used by the owners alone. The tenants have not the interest in keeping up the buildings and sometimes they are careless.

Public buildings are usually not as well cared for as they should be, and ordinarily will decrease in value from two to three percent a year.

#### HOW TO ASCERTAIN.

The agents and adjusters will have the best success in ascertaining values if they make their own tables of depreciations. Every new house in their locality should be carefully noted, its dimensions and cost taken down. From these notes a very useful cubic foot table of cost may be computed. It will also be possible in many cases to ascertain the original cost of old buildings and also the date of construction. A fair estimate of present value can often be made and from these data the desired information

can be deducted. Such tables will be far more useful than any to be found in the books usually considered authorities on the subject.

#### OTHER BUILDINGS.

With the mercantile or manufacturing buildings in cities and towns use has much to do. Heavy or rapid running machinery will reduce the value of a building very rapidly, especially if the building is a light one. So will the storage of heavy goods. In fact almost any use for which a building was not intended causes extra wear and tear. Unoccupied buildings depreciate rapidly.

But the cost is not always a safe basis to start from. There are places where the first lumber was hauled in on wagons and where the first workmen received any wages they were pleased to ask. Afterward, when railroads came in and wages resumed the normal condition the same buildings could have been put up at a fraction of their original cost. On the other hand, the advance in the price of lumber, of late years, may make an old building worth as much as it was when newly built.

In cities and towns, buildings and lots are sold together and without much regard to cost. Residences bring prices according to locality. The fashionable part of town is a high priced region. Much frequented corners are also held at high figures so that very little indication of value of buildings is furnished by sales. The whole question is one of careful observation, good judgment, and good hard sense.

**DEPRECIATIONS.**

Carpets will last ten years in bed rooms with a careful family. In the parlor and living rooms they will wear out in four years if the family is large and if there is much company. Economical people save some expense by changing carpets from room to room as they become worn. Good furniture carefully used will last ten years on the average. The parlor set, if shut up in the dark, as it sometimes is, will last much longer. But it gets out of style and that reduces its value.

Country stores generally carry a mixed stock. Hardware, groceries and staple goods depreciate rather slowly. But millinery gets dirty and out of style, clothing loses value owing to change of fashion. Last year's goods in any line are at least five percent off, clothing should be discounted twenty-five percent, millinery fifty, queensware and crockery ten percent and notions twenty-five.

These deductions will not be too large.

**FARM MACHINERY.**

On the average, the life of farm machinery is five years. Steam boilers, cookers, threshers, traction engines may all be counted in at that. The cause of this rapid loss of value is, in the first place, that much of this machinery is very shabbily made, and secondly, that the people who use it are usually not mechanics. Machinery is left out of doors exposed to the weather. The ground beneath it is water soaked, some wheels sink more than others, the

whole thing may become twisted, the journals bind and the wear is enormous. Of course there are some who handle this machinery better but the average as above stated will be found nearly correct.

But after all, the question is not one of rule or theory but of actual fact, and to ascertain the fact is the question for the agent and the adjuster.

#### **NEW DISCOVERIES.**

These have an important influence on classification. An illustration is to be found in the use of coal oil for fuel. It changes the risk materially, increasing the hazard. Should a safe method of feeding the oil to the furnace be introduced then the risk will change and the charge for the extra hazard may be dropped. New materials, new chemicals, all must be examined, and if found dangerous must either be charged for or made safe. The same is true of speeding up machinery, it increases the hazard.

Changes in water supply must be looked after, if there is better fire protection the risk is safer.

The introduction of new chemicals needs watching. Carbon di sulphide is being used for many purposes. It is exceedingly dangerous, and should not be allowed except in minute quantities. And as time passes, new changes and new hazards appear. There is only one safe plan, to be continually on the watch and to test everything which is new.

It is not necessary that each company test every article for itself. This would be very expensive. A joint arrangement, such as is made by the New England Mill Mutuals, would provide for this work at a very small expense.

## CHAPTER XIV.

### THE POLICY AS A CONTRACT.

In making and executing contracts, fairness should be kept in view. It is possible to so entangle an agreement with technicalities that it becomes unintelligible, and that contracts have been drawn up with a view to binding one side and not the other, is a well established fact. It is singular that so many cases come up before the courts in which contracts are to be construed, that is, courts are to say what they mean. The same is true of the laws of the land. It is very rarely that a legislature succeeds in passing a law that means what it says, or says what the legislature intended that it should.

Especially is that true with regard to restrictive laws and statutes for the prevention of crime. The records show that it seems to be next to impossible to bring a case against an important criminal without making some blunder which will cause it to be thrown out of court. Then when the error is rectified and the case finally comes to trial, the judge or the attorney makes another mistake and the whole process is gone over again and again till the witnesses die or disappear and the matter is dropped.

**POLICIES MUST BE SIMPLE AND CLEAR.**

The Mutuals should avoid all this. The policy should be simple and clear. No doubtful hazards should be accepted and only men of known good character should be received as members. This needs emphasis. Experience of old companies shows that the higher the standard is raised the cheaper the Insurance. All descriptions in the application should be clear and accurate. And then when a fire occurs all mere technicalities should be ignored and the loss should be paid promptly and in full. The character of the insured should be recognized. Gross fraud or palpable violation of the contract should invalidate it, and such cases though possible, are exceedingly rare.

As one company expressed it, "When an honest man has paid for a thousand dollars' indemnity and a thousand dollar loss occurs, we just pay; that is all there is to it."

**UNILATERAL CONTRACTS.**

Insurance contracts belong to the same class as bills of lading, rail road tickets, etc. They are sometimes called unilateral contracts, as they are made by one side only. The shipper on the railroads and the policy holder in a joint stock Insurance company have nothing to say about the contracts they sign. The courts construe such contracts very strictly against the companies. In Insurance cases the decisions have been gradually growing more and more rigid, until, at present, if a policy contains technical

provisions, the courts often require the company to prove that the policy holder had notice thereof before they will enforce them.

The policy is the written or printed contract between the insurer and the insured. It should set forth that contract fully and in terms not liable to be misunderstood. One of the great sources of trouble between Insurance companies and their patrons is the lack of precision in filling out the application. In each contract should be set forth the name of the contracting parties. The name of the insurer, that is the name of the company, is usually printed, but the name of the insured is written and care should be taken to see that it is correct; no initials should be left out and no names should be abbreviated. If Thomas M. Smith is insured the policy should not read "Tom Smith." If it does, the chances are that it contains other errors which will make trouble. It must also set forth the rate of premium and the property insured. In writing numbers they should be spelled out, single figures are liable to be mistaken.

#### **DESCRIPTIONS ACCURATE.**

Descriptions of property should be accurate and complete. Each description should include the thing described and exclude everything else. The interest of the insured should also appear and if he is not the sole owner, his share or interest should be accurately described. If the policy is made out to a mortgagee, the fact should be plainly stated. All ambiguity must be avoided.

The risk must be clearly stated, and also the length of time for which the policy is to run. As to the form of the policy there is much discussion. It has been customary to issue policies containing numerous exceptions and restrictions printed in microscopic type with the proviso that the violation of any one would render the whole policy void. Courts have looked upon these with disfavor, and have held that these paragraphs were, at best, constructive notice, and have required proof, in case of loss, that the assured had actually read them or that they had been pointed out to him. It has also been ruled that the policy was a contract which the assured had no hand in making, he was obliged to accept it as it was offered to him or go without Insurance. In all such cases the courts will do equity regardless of the provisions of the contract. An effort has been made to avoid these evils by formulating a standard policy to be printed in type of not less than a given size.

#### THE STANDARD POLICY.

The following, taken from the laws of New York, is an example:

..... INSURANCE COMPANY OF.....  
In consideration of the stipulations herein named and of .....  
..... dollars premium, does insure ..... for the  
term of ....., from the ..... day of ..... 190..,  
at noon, to the ..... day of ..... 190.., at noon,  
against all direct loss or damage by fire except as hereinafter  
provided,

To an amount not exceeding ..... dollars, to the  
following described property while located and contained as  
described herein, and not elsewhere, to wit:

.....  
.....

This company shall not be liable beyond the actual cash value of the property at the time any loss or damage occurs, and the loss or damage shall be ascertained or estimated according to such actual cash value, with proper deduction for depreciation however caused, and shall in no event exceed what it would then cost the insured to repair or replace the same with material of like kind and quality; said ascertainment or estimate shall be made by the insured and this company, or, if they differ, then by appraisers, as hereinafter provided, and the amount of loss or damage having thus been determined, the sum for which this company is liable pursuant to this policy shall be payable sixty days after due notice, ascertainment, estimate, and satisfactory proof of the loss have been received by this company, in accordance with the terms of this policy. It shall be optional, however, with this company to take all, or any part, of the articles at such ascertained or appraised value, and also to repair, rebuild or replace the property lost or damaged with other of like kind and quality within a reasonable time on giving notice, within thirty days after the receipt of the proof herein required, of its intention so to do; but there can be no abandonment to this company of the property described.

This entire policy shall be void if the insured has concealed or misrepresented, in writing or otherwise, any material fact or circumstance concerning this insurance or the subject thereof; or if the interest of the insured in the property be not truly stated herein; or in case of any fraud or false swearing by the insured touching any matter relating to this insurance or the subject thereof, whether before or after a loss.

This entire policy, unless otherwise provided by agreement indorsed 'hereon or added hereto, shall be void if the insured now has or shall hereafter make or procure any other contract of insurance, whether valid or not, on property covered in whole or in part by this policy; or if the subject of insurance be a manufacturing establishment and it be operated in whole or in part at night later than ten o'clock, or if it cease to be operated for more than ten consecutive days; or if the hazard be increased by any means within the control or knowledge of the insured; or if mechanics be employed in building, altering, or repairing the within described premises for more than fifteen days at any one time; or if the interest of the insured be other than unconditional and sole ownership; or if the subject of in-

surance be a building on ground not owned by the insured in fee-simple; or if the subject of insurance be personal property and be or become incumbered by a chattel mortgage; or if, with the knowledge of the insured, foreclosure proceedings be commenced or notice given of sale of any property covered by this policy by virtue of any mortgage or trust deed; or if any change, other than by the death of an insured, take place in the interest, title, or possession of the subject of insurance (except change of occupants without increase of hazard) whether by legal process or judgment, or by voluntary act of the insured, or otherwise; or if this policy be assigned before a loss; or if illuminating gas or vapor be generated in the described building (or adjacent thereto) for use therein; or if (any usage or custom of trade or manufacture to the contrary notwithstanding) there be kept, used or allowed on the above described premises, benzine, benzole, dynamite, ether, fireworks, gasoline, greek fire, gun powder exceeding twenty-five pounds in quantity, naptha, nitro-glycerine, or other explosives, phosphorus or petroleum or any of its products of greater inflammability than kerosene oil of the United States standard (which last may be used for lights and kept for sale according to law, but in quantities not exceeding five barrels, provided it be drawn and lamps filled by daylight, or at a distance not less than ten feet from artificial light); or if a building herein described, whether intended for occupancy by owner or tenant, be or become vacant or unoccupied, and so remain for ten days.

This company shall not be liable for loss caused directly or indirectly by invasion, riot, civil war or commotion, or military or usurped power, or by order of any civil authority; or by theft; or by neglect of the insured to use all reasonable means to save and preserve the property at and after a fire or when the property is endangered by fire in neighboring premises; or (unless fire ensues, and, in that event, for the damage by fire only) by explosion of any kind or lightning; but liability for direct damage by lightning may be assumed by specific agreement hereon.

If a building or any part thereof fall, except as the result of fire, all insurance by this policy on such building or its contents shall immediately cease.

This company shall not be liable for loss to accounts, bills, currency, deeds, evidences of debt, money, notes or securities

nor, unless liability is specifically assumed thereon, for loss to awnings, bullion, casts, curiosities, drawings, dies, implements, jewels, manuscripts, medals, models, patterns, pictures, scientific apparatus, signs, store or office furniture or fixtures, sculpture, tools, or property held on storage or for repairs; nor beyond the actual value destroyed by fire, for loss occasioned by ordinance or law regulating construction or repair of buildings, or by interruption of business, manufacturing processes, or otherwise; nor for any greater proportion of plate glass, frescoes, and decorations than that which the policy shall bear to the whole insurance on the building described.

If an application, survey, plan or description of property be referred to in this policy it shall be a part of this contract and a warranty by the insured.

In any matter relating to this insurance, no person unless duly authorized in writing shall be deemed the agent of this company.

This policy may by a renewal be continued under the original stipulations, in consideration of premium for the renewed term, provided that any increase of the hazard must be made known to the company at the time of renewal or this policy shall be void.

This policy shall be cancelled at any time at the request of the insured; or by the company by giving five day's notice of such cancellation. If this policy shall be cancelled as hereinbefore provided, or become void or cease, the premium having been actually paid, the unearned portion shall be returned on surrender of this policy or last renewal, this company retaining the customary short rate; except that when this policy is cancelled by this company by giving notice it shall retain only the pro rata premium.

If, with the consent of this company, an interest under this policy shall exist in favor of a mortgagee or of any person or corporation having an interest in the subject of insurance other than the interest of the insured as described herein, the conditions hereinbefore contained shall apply in the manner expressed in such provisions and conditions to such interest as shall be written upon, attached or appended hereto.

If property covered by this policy is so endangered by fire as to require removal to a place of safety, and is so removed, that part of this policy in excess of its proportion of any loss

and of value of property remaining in the original location, shall for the ensuing five days only, cover the property so removed in the new location; if removed to more than one location, such excess of this policy shall cover therein for such five days in the proportion that the value in any one such new location bears to the value in all such new locations; but this company shall not, in any case of removal, whether to one or more locations, be liable beyond the proportion that the amount hereby insured shall bear to the total insurance on the whole property at the time of fire, whether same cover in new location or not.

If fire occur the insured shall give immediate notice of any loss thereby in writing to this company, protect the property from further damage, forthwith separate the damaged and undamaged personal property, put it in the best possible order, make a complete inventory of the same, stating the quantity and cost of each article and the amount claimed thereon; and, within sixty days after the fire, unless such time is extended in writing by this company, shall render a statement to this company, signed and sworn to by said insured, stating the knowledge and belief of the insured as to the time and origin of the fire; the interest of the insured and of all others in the property; the cash value of each item thereof and the amount of loss thereon; all incumbrances thereon; all other insurance whether valid or not, covering any of said property; and a copy of all the descriptions and schedules in all policies; any changes in the title, use, occupation, location, possession, or exposure of said property since the issuing of this policy; by whom and for what purpose any building herein described and the several parts thereof were occupied at the time of fire; and shall furnish, if required, verified plans, specifications of any building, fixtures, or machinery destroyed or damaged; and shall also, if required, furnish a certificate of the magistrate or notary public (not interested in the claim as creditor or otherwise, nor related to the insured) living nearest the place of the fire, stating that he has examined the circumstances and believes the insured has honestly sustained loss to the amount that such magistrate or notary public shall certify.

The insured, as often as required, shall exhibit to any person designated by this company all that remains of any property herein described, and submit to examinations under oath by any

person named by this company, and subscribe the same; and, as often as required, shall produce for examination all books of account, bills, invoices, and other vouchers, or certified copies thereof, if originals be lost, at such reasonable place as may be designated by this company or its representative, and shall permit extracts and copies thereof to be made.

In the event of disagreement as to the amount of loss the same shall, as above provided, be ascertained by two competent and disinterested appraisers, the insured and this company each selecting one, and the two so chosen shall first select a competent and disinterested umpire; the appraisers together shall then estimate and appraise the loss, stating separately sound value and damage, and failing to agree shall submit their differences to the umpire; and the award in writing of any two shall determine the amount of such loss; the parties thereto shall pay the appraiser respectively selected by them and shall bear equally the expenses of the appraisal and umpire.

This company shall not be held to have waived any provision or condition of this policy or any forfeiture thereof by any requirement, act or proceeding on its part relating to the appraisal or to any examination herein provided for; and the loss shall not become payable until sixty days after the notice, ascertainment, estimate and satisfactory proof of the loss herein required have been received by this company, including an award by appraisers when appraisal has been required.

This company shall not be liable under this policy for a greater proportion of any loss on the described property, by fire, or for loss by and expense of removal from premises endangered by fire, than the amount thereby insured shall bear to the whole insurance, whether valid or not, or by solvent or insolvent insurers, covering such property, and the extent of the application of the insurance under this policy or of the contribution to be made by this company in case of loss, may be provided for by agreement or condition written hereon or attached or appended here-to. Liability for reinsurance shall be as specifically agreed here-on.

If the company shall claim that the fire was caused by the act or neglect of any person or corporation, private or municipal, this company shall, on payment of loss, be subrogated to the extent of such payment to all right of recovery by the in-

sured for the loss resulting therefrom, and such right shall be assigned to this company by the insured on receiving such payment.

No suit or action on this policy, for the recovery of any claim, shall be sustainable in any court of law or equity until after full compliance by the insured with all the foregoing requirements, nor unless commenced within twelve months after the fire.

Wherever in this policy the word "insured" occurs, it shall be held to include the legal representative of the insured and wherever the word "loss" occurs, it shall be deemed the equivalent of "loss or damage."

If this policy be made by a mutual or other company having special regulations lawfully applicable to its organization, membership, policies or contracts of insurance, such regulations shall apply to and form a part of this policy as the same may be written or printed upon, attached, or appended hereto.

This policy is made and accepted subject to the foregoing stipulations and conditions, together with such other provisions, agreements or conditions as may be endorsed hereon or added hereto, and no officer, agent, or other representative of this company shall have power to waive any provision or condition of this policy except such as by the terms of this policy may be the subject of agreement indorsed hereon or added hereto, and as to such provisions and conditions no officer, agent or representative shall have power or be deemed or held to have waived such provisions or conditions unless such waiver, if any, shall be written upon or attached hereto, nor shall any privilege or permission affecting the insurance under this policy exist or be claimed by the insured unless so written or attached.

This policy shall not be valid until countersigned by the duly authorized agent of the company, at .....

In witness whereof, this company has executed and attested these presents this ..... day of ..... 190...  
THE ..... INSURANCE COMPANY, by .....

Countersigned at ....., this .... day of .....  
..... 190... .....

..... Agent.

**GENERALLY USED.**

This standard form is used in New York, Connecticut, Louisiana, Missouri, New Jersey, North Dakota, South Dakota, North Carolina, Pennsylvania and Rhode Island. Michigan, Wisconsin, Maine, Massachusetts, Minnesota and New Hampshire have forms of their own, but they differ but little from the New York standard policy. These forms are subject to the laws of the state in which they are issued, and also where they are used. Thus a New York form is subject to construction by the courts of New York, but policies used by a New York company in insuring property in Kansas become subject to the laws of Kansas.

**ADVANTAGES.**

There is much advantage in a standard policy; once construed it is construed for all companies, and for all time and it is sure to be free from all technicalities. There are companies, however, which issue policies containing but a very small portion of this verbiage and they seem satisfied with them. Some have special forms for different risks and these are extremely simple. It is a question whether there is not a great advantage in having a standard form each for farm risks, town dwellings, and mercantile buildings, leaving the full form for the larger establishments where the risks are extremely complicated.

It would be advantageous to the Mutuals to have a standard policy for each class in every state. Many Mutuals confine themselves to a single line of risks,

their policies may be simplified accordingly. A standard policy for all Mutuals of the country is not practicable, but in each state there should be progress toward uniformity and toward simplicity, until, as in the case of the old common law deed, the useless verbiage is dispensed with.

#### **WHAT TO PRINT IN THE POLICY.**

There is a division of opinion among Mutuals as to what should be printed in the policy, especially whether the by-laws should be part of it. It is true that courts hold that every member of a Mutual Insurance company is presumed to know what the by-laws are, but some states provide that the whole contract must be printed in the policy. In these states the by-laws must be so printed, elsewhere while it is not legally necessary, whatever is part of the contract should be in the contract if possible. Courts are holding to this principle in recent decisions.

Some experienced and successful companies print the by-laws in the application and in the policy both, and some make the descriptive part of the policy and of the application exactly the same. When the policy is filled out it contains a duplicate of the application. Companies which have tried this plan speak very strongly in its favor. The cost is trifling.

#### **NATURE OF POLICIES.**

In summing up it must be emphasized that Insurance is a contract for indemnity and as a contract the policy should be self explaining, care should be taken to see that it is true in fact as well as in theory.

And if any additional restriction or privilege is attached to the policy, let it be done in writing and be fully understood by both parties.

Stripped of all verbiage, a policy is the written contract which insures a certain described interest in a certain described property existing under certain described conditions. As long as these all remain the same, the company is bound; in case of fire, the contract stands; but if, without the knowledge or consent of the company, the interest in the property or the conditions are changed, the contract is at an end. To illustrate: The owner mortgages it without the consent of the company. He has broken the contract. So if he vacates it or changes its use to manufacturing or makes additions or repairs which increase the risk, the contract is broken. As to whether removing the mortgage, re-occupying the building as a dwelling, etc., would again restore the policy, there is some dispute. The policy usually uses the word "void," but in many instances this is in the sense of "voidable." The New Hampshire fire Insurance laws contain the following:

"A change in the property insured, or its use or occupation, or a breach of any of the terms of the policy by the insured, shall not affect the policy except while the change or breach continues."

Courts and juries will probably follow this principle whenever possible.

**INSURABLE INTEREST.**

Almost any kind of property in the thing insured, any reasonable expectations of profit or advantage to be derived therefrom, will constitute an interest which may be insured. But it must be founded on some legal or equitable title, a vague expectancy of profit from some other person's dealings would not constitute an Insurance interest. An executor or executrix, heirs at law, common carriers, bailees, trustees, tenants, or any person having custody of property for himself or another, and responsible for its safe keeping, has an insurable interest therein. In general, any one can insure when he can show that he will suffer loss if the property is destroyed.

With regard to joint interests already alluded to, the custom is not settled. If one member sells to an outsider, notice must be given to the Insurance company and the name of the new member endorsed on the policy. If one member sells out to another the case is doubtful, but if the insurer is notified and the proper endorsement is made on the policy there can be no possibility of trouble. Those who are too stupid or too stubborn to take such a simple precaution deserve to suffer from their idiocy.

This is but a brief sketch, but it is not possible to cover the subject. Two such volumes as this would not suffice to give a full discussion of the subject. Should any emergency arise, or any complicated case occur, an attorney should be consulted.

**DECISIONS.**

A few legal discussions are appended, not as an exhaustive list, but to show the necessity of care in making out a policy on the part of the company and also of diligence on the part of the insured to see that the contract is kept:

“When a policy on a tenement house provided against the keeping of gasoline on the premises, the fact that gasoline was so kept by the tenant without the knowledge of the landlord, did not relieve the latter from a breach of the condition.” *Norway vs. Thuringea Ins. Co.*, 68 N. E., Ill. 1.

“In the same case the court also held that where a policy on a tenement house provided that it should be void if gasoline should be kept on the premises and such condition was broken, the insurer was not bound, in order to relieve itself from liability, to show that the loss resulted from such breach.”

“The depositing of a policy by the insurer in the post office addressed to the Insurance applicant with postage prepaid is a good delivery of the policy.” *Armstrong vs. Mutual Life Ins. Co. of New York.*, 96 N. W., Iowa.

“Policies and contracts of Insurance must be construed like other contracts, according to the ordinary popular sense of the terms they contain. This is the general rule.”

**NEW METHODS.**

People are so accustomed to transacting business with persons, firms, or corporations in which they have no financial interest and over whose ac-

tions they have no control that they find the duties and rights of co-operators difficult to recognize and comprehend. Going from one establishment to another, paying the prices demanded without question, the fraternal methods are novel and perplexing. The customer goes into the ordinary store with the crowd, who they are he neither knows nor cares, he deals with those whose every interest is their own welfare and over whose actions he has no possible influence, and goes away not caring whether or not he ever enters the place again.

In the co-operative establishment all is changed. He is one of the owners, one of the employers of those officials, but he has no interest in making a profit on anything. He no longer looks upon the crowd of customers as strangers, they are now his friends and associates, and all have a common interest in the business, and a common voice in the management. He looks at everything through a different atmosphere.

There are many who fail to realize the full force of this. They have taken out a policy in a Mutual, they are insured, what more do they need? New ideas gradually develop and it dawns upon them that if they would take better care of their property and the others would do the same, the cost of Insurance would be less.

They also see that if the company were warned against dangerous hazards there would be a material saving. Then comes the conviction that it would be well to look up the other policy holders to see who

and what they are and how they can benefit the company by their joint action. The growth of the fraternal spirit follows, then work for fraternalism, and last of all the full sense of duty. This is generally a slow growth, often very slow.

Wherever this growth has matured, is found the highest and best development of Mutualism and the greatest prosperity among co-operative enterprises.

The working out of this sense of duty among Mutuals, results in watching and safely guarding each other's interests. This is not as a mere matter of profit or of personal advantage, but as something which each man owes to his fellow man. The result is the improvement of the service and the reduction of expense.

The more fully this idea of duty is developed, not as a mere sentiment, but as a growing principle, the more efficient the Mutuals will become. The more the members will help each other, the higher the standard of the community will be raised, and the more will be the material recompense in the shape of diminished cost.

#### **VALID CONTRACT.**

In order to make a valid contract, the two contracting parties must agree, or as the phrase goes, "the two minds must meet." If it can be shown that what the parties agreed upon and what they intended to put in the contract is not expressed, the courts will change the contract. By this it is not meant that they will make a new contract between the parties,

they will do no such thing, they will merely make the contract say what it was intended to say in the first place, provided the intention of the parties can be made clear.

#### **CONFLICT BETWEEN POLICY AND APPLICATION.**

In the case under consideration the best evidence is furnished by the application itself. The policy holder has signed it; presumably, therefore, he has made himself acquainted with its contents. It is satisfactory to him. He had no hand in making out the policy, but as his risk was accepted and accepted on the facts stated in the application and before the policy was made out, it may safely be affirmed that it was the intention that it should conform to the application. The application, therefore, should govern and not the policy. This applies to the policies made out at the main office of the company and issued by its principal officers.

If an agent in assisting in making out that application has made material changes in the facts in order to secure the risk and make sure of his commission, the company would still be bound by the application, although it did not accord with the actual facts. By suppressing facts within his knowledge, the agent waived the right of using those facts in case of loss.

When an agent has the right to issue policies himself, and changes the facts set forth in the application, that policy holds the company in case of loss. This is on the old principle that a man cannot take advantage of his own wrong.

With reasonable care on the part of managers of companies neither of these questions need ever arise.

**HOW DOES A POLICY BECOME DELINQUENT?**

This question is discussed incidentally in the chapter on assessments. What is said there is from the standpoint of the company and is intended to aid in enabling the company to show its exact legal status in case of disputes and thus avoid the payment of unjust claims. In general, a policy becomes delinquent when assessments or dues are not paid within the time stipulated in the policy or the by-laws. A few states have laws on this matter but in the greater number it is left to the courts to settle disputed cases.

While the most of the responsibility is thrown upon the company, the policy holder must also use some effort to keep his policy paid up. In case of removal or change of post office it is absolutely necessary that he notifies the company. In the case cited elsewhere, the policy holder who changed his post office address left a forwarding order at the post office and also inquired of the company's agent when the assessment notice was coming. There is no excuse for the post master's neglect, but he could not be held responsible. It would have been better if the agent had written to the company that the assessment notice was overdue. That would have called attention to the matter at headquarters and the officers would have taken steps to rectify the matter. It is in attending to such apparently trifling affairs that the good agent shows his superiority.

Cases such as the one referred to are extremely rare. Ordinarily, the first notice reaches the policy holder and is attended to at once, or at least within the specified time. If by accident it fails to reach its destination the second notice, especially if registered, will be received. In short, the man who wishes to keep his Insurance policy in force, will have very little trouble in doing so. Letters miscarry from misdirection, destruction or loss in the mails, being taken from the post office by some person other than the one to whom they are directed, and being lost before they are delivered. It is scarcely possible that two letters in succession should be subject to accident. If the policy holder has not changed his address, he may be sure that he will get his assessment notice. If he has changed his address he should notify the company. The company will of course make all possible effort to find him but that does not relieve him from responsibility. In case of loss, if the company could show that they had made reasonable effort to find him before suspending his policy, and he was obliged to admit that he had taken no pains to notify them of the change of address, he could not recover.

In case of absence from home, the policy holder must have some one to attend to his business. If he does not, he must take the consequences.

It is safest for each party in interest to act as if the responsibility rested on him alone. The chapter on assessments discusses the duty of the company. The duty of the policy holder is very simple: To watch for his assessment notice, to notify the com-

pany of all changes of address and to remit promptly when notice is received. If a mistake occurs, he should use reasonable diligence to see that it is corrected.

The company should promptly note all cases of failure to remit and of consequent suspension, otherwise a neglect to do so may waive the right.

#### HOW MAY A COMPANY WAIVE ITS RIGHTS?

The general answer is by neglect or by doing something inconsistent with the contract, which it has made. A few court decisions are given as illustrating how the principle applies:

“A policy of Insurance, issued and delivered to the assured, with a full knowledge, on the part of the insurer, of facts making it inoperative at its inception, is a waiver of all conditions of the policy inconsistent with the facts known to the insurer.”

In general, whenever a company issues a policy, having full knowledge of facts which are contrary to certain provisions of that policy, it waives those provisions. For example, if the policy that requires that the building should have solid brick or stone foundation, is issued upon a building set upon blocks with the full knowledge of the company, that provision would be waived so far as that policy was concerned.

When the agent has full knowledge of the true conditions surrounding insured property, and the company issues a policy in which these conditions are restricted or prohibited, the same are presumed to have been waived. For example: The agent knew

that gasoline had been used and would be used for cooking and yet issued a policy without a permit to use gasoline, attached thereto; he waived objection to gasoline.

When an agent had every opportunity to inspect before insuring, the company is estopped from denying the valuation as stated in the policy. *Ritchie vs. Home Ins. Co.*, 78 S. W., (Mo. Apl.)

It would be going too far to say that whenever an agent neglected a duty he waived a right, and yet it is often true. An agent fails to report a certain condition of insured property, barred by stipulation of the policy. Courts hold that he waived that stipulation. When at the time an Insurance agent issued a policy of fire Insurance, he knew that the property insured belonged to a partnership of which the applicant was a member, his act in issuing the policy, describing the applicant as the owner, was a waiver of the clause of warranty of sole ownership. *Continental Ins. Co. vs. Cummings, et al.*, 81 S. W. (Tex.)

The Secretary or President has knowledge of the infraction of a contract and fails to take notice of it. They waive advantage of that knowledge. An assessment falls due, the notice is not properly sent. The right to suspend for non-payment is waived. Or the notice is duly sent and received, but the assessment is not paid. The company neglects to suspend the delinquent as its rules require. Another assessment occurs, and before the time in which to pay it has expired, there is a loss. Most courts will hold that the right to suspend on the first delinquency has been

waived, the loss must be paid. Where the by-laws require suspension without action, the case would be different.

#### **LIVE UP TO THE LAW.**

The only safe way is to live up to the law and regulations carefully and exactly. Read the laws and by-laws frequently, study them thoroughly, observe them carefully, following their wording when possible. Settle all doubtful questions at once, postpone nothing, but do everything in its time and place, and keep full and accurate records and there will be very little trouble about waiving of rights. Of course it is supposed that in cases of doubt the company will take the advice of its attorney before acting. This question is also discussed in the chapter on assessments.

#### **A GOOD RULE.**

An eminent authority lays down the following rules: Most things that come to the knowledge of an *agent* in soliciting the risk, *before policy is written*, are considered within knowledge of the company.

*Few* things coming to the knowledge of an agent *after* policy is issued in anyway affect the company.

#### **HOW FAR MAY AN OFFICER WAIVE THE RIGHT OF THE COMPANY?**

No fixed line can be laid down. Every agent can bind his principals to some extent, but how far is often a subject of dispute. Generally, the rule is that what the agent knows the employer knows, and what the agent does is the act of the employer also.

The courts have of late construed these more and more strictly, especially in the case of corporations. To hold otherwise, would be to permit companies to make contracts which the other party could be compelled to keep but which they could repudiate at their pleasure. The iniquity of that doctrine is apparent on its face.

Whatever an agent or other employee acting for the company says or does regarding an Insurance contract while he is acting along the line of his duty will generally be binding. Examples will show how this applies.

An adjuster said to a man who had a loss: "It will be a long time before you get a cent out of that." The court held that the adjuster had waived the company's right to arbitration, proof of loss, etc., and that the loser could take the case into court as it was. *Siegle et al vs. Phoenix Ins. Co. of Brooklyn*, 81 S. W., (Mo. App.)

In a number of cases in which officials denied the liability for losses, the courts held that they waived the rights of the company in a similar manner. The reason for this ruling is that the question brought before the court was whether or not the company was liable at all. If it was decided in the negative, the matter would be ended; if in the affirmative, the court would finish up the case and fix the amount.

#### A CARELESS PRACTICE.

Agents often say in a careless sort of manner, "Oh, that's all right." Not unfrequently the company will be bound by this remark. Such expressions

should not be used, in fact, nothing should be promised which is not put in writing.

The agent can waive a right by ignoring it. As in the case where a policy issued without a gasoline permit, although the agent knew that it was to be used.

In the collection of assessments the same waiver of rights is liable to occur. An assessment becomes delinquent, the holder meets the agent and pays him the assessment. Whatever might be the strict construction of law, the jury would probably hold that the act of the agent waived the right of the company to suspend the policy. Policies which have been suspended are sometimes reinstated in a like careless manner. Many companies nominally require all assessments to be paid at the home office. But a policy holder falls into arrears, the agent looks him up and persuades him to pay, receives the money, gives a receipt, and remits it to the company, which reinstates the delinquent. If it can be proven that this practice was customary it might make trouble for the company, in case the payment was accepted after a loss had occurred.

When an agent fills out an application, recording the answers of the applicant, if he makes changes, additions, or omissions, the company will be held to have waived all objections to the matter which was so changed by the agent.

These are merely illustrations, the doctrine of waiver covers too large a field for full discussion in this work.

If several proceedings are to occur in a given order, the performance of any one might be held as a waiver of those preceding. For instance, if an adjuster should deny all liability for a loss, he should stop right there. If he goes on to ascertain the values and amount of loss, a jury might hold that that was an appraisement, and consequently a waiver of the denial of liability.

An official who does his duty exactly and precisely when making contracts and dealing with the policy holder will waive no rights whatever. He will not only care for the interests of the company but the interests of the policy holder also. In case of loss, satisfactory settlements will be practicable, and disagreements almost unheard of.

An ideal official is the one who keeps close watch upon the business of the company and the insured also and does his best to see that the contracts are fully and faithfully carried out on both sides, and who always keeps his books and his business up to date.

#### **IN CASE OF LOSS.**

The customary notice must be given. Many companies enclose with the policies which they issue a blank form to be filled out in case of fire as an aid to the loser. The notice must be given immediately.

While "immediately" is not "instantly," there must be but little delay unless from some causes which can be explained, such as absence of owner, etc. A delay of ten days or two weeks would be a suspicious circumstance. Notice should be sent to

the home office. It is well enough to notify the local agent, but it must be borne in mind that notice to the agent is not notice to the company.

Notice sent by mail should be registered. Depositing a letter in open mail raises a presumption that it has been received but this may be denied. The receipt for a registered letter is proof conclusive.

If notice of loss is unreasonably delayed, the company should object as soon as it is received, otherwise it may be held that they waived the right to do so. Sometimes a proof of loss is sent instead of notice. This will answer as notice if it is sent at once. When blanks for notice and proof of loss accompany the policy they should be used.

#### **DUTY OF ASSURED.**

If the damage is partial, it is the duty of the assured to do what he can to save the property from further loss, and in case of personal property, to separate the undamaged from the damaged and to put it all in best condition possible. An inventory should be made out separately from the notice of loss. This rule is statutory in many states, and must be substantially complied with except in cases where damage is trifling and nothing would be gained by separating the property.

This inventory is not required when there is only one article damaged, nor when there is a total loss, or when the goods are so badly damaged as to render it impracticable.

If the policy has been assigned as security, the company should be extremely cautious, as it acts at its own risk.

After these preliminaries the company usually sends an adjuster, who is its agent in ascertaining and settling the amount of loss, and here is where trouble usually begins. Respectable companies employ fair adjusters. It is to their interest to do so. A company which habitually fails to pay its losses justly would be like a merchant who habitually gives short weight, both would be set down as frauds, and both would lose business. But there are companies which do not seem to care for reputation and there are adjusters who act as if their only remuneration consisted in a percentage on the sums they saved to their employers. These have brought the whole business into disrepute.

It is generally the fact that when a man has a loss, he is apt to over estimate it. It looks badly and there is generally a meddlesome person to make matters worse, and the Mutual adjuster, wishing to deal fairly, is often handicapped at the outset. But if the loser is willing to be fair, a little tact combined with some forbearance on the part of the adjuster will soon make an agreement possible.

But now and then there is strong evidence of fraud. All such cases should be most carefully investigated, for a Mutual has no more right to permit itself to be swindled than it has to swindle some one else.



#### **S. R. VAN METRE, MARIETTA, OHIO.**

S. R. Van Metre is a descendant of Jan Gysbesten Van Metre who came from Holland in 1663 and obtained a grant of 40,000 acres of land in the Valley of Virginia. S. R. Van Metre was raised on a farm, and in early manhood was elected president of the Washington County Farmers' Mutual Insurance Association, organized in 1897, was re-elected to the office from time to time, the last occasion being Jan. 17, 1905. He is vice president of the Federation of Mutual Insurance Associations of Ohio, and director in the Ohio Windstorm Association and state vice president of the National Insurance Companies.



#### **H. F. HITCHCOCK, LINCOLN, NEBRASKA.**

Harvey Fletcher Hitchcock, son of Col. Nichola Fletcher and Jermima Hitchcock, was born Nov. 16, 1866, at Maxville, Ohio. He moved to Nebraska in February, 1880. He graduated from the public schools, York College and Mallalieu University. He married Miss Mamie Mason, at Denver, Colorado. He founded the Mutual Insurance Journal in October, 1894. This paper has a wide circulation and has a large and flourishing job office attached. The editorial work and the supervision of the publication and job office departments take the whole of his time.

**SHOULD AGENTS ADJUST?**

The question is asked, should the agent act as adjuster? Mutual Insurance men usually answer this question in the negative. They say that the agent is liable to be drawn into quarrels with his neighbors which permanently injure his efficiency. It is cheaper and better to employ the regular adjuster.

## CHAPTER XV.

### CANCELLATION OF POLICIES.

The laws of many states are silent on this subject, and the provisions of the statutes in other states are very brief.

Either party has the right to cancel. If the company cancels the policy it must give due notice and return the unearned portion of the premium, if any there be. This process must be complete. The notice must be given and the unearned premium must be actually returned or at least tendered in order to release the company. The case in which assessments are due and unpaid is discussed in the chapter on assessments.

If the policy is cancelled by the insured, he must pay up all arrearages and liabilities. If a loss has occurred, he must pay his proportion thereof before he can be released. This applies to all companies which assess after a loss. Those which assess in advance or which receive cash payments for a term of years, will be owing the policy holder and must return the surplus. But they have the right to charge what are called short time rates which are somewhat in excess of the term rates. Several tables of short time rates are used. The following, computed by the Iowa Insurance Department, is generally approved.

These apply when the policy holder cancels out. If the company cancels, it must return the full proportion of the premium it has on hand after deducting the policy holder's share of all losses and expenses which have occurred.

**SHORT RATE TABLE TO GOVERN IN THE CANCELLATION  
OF FIRE INSURANCE POLICIES.**

[Prepared by the Auditor of State of the State of Iowa, in accordance with the provisions of Section 1729, the Code.]

Take the percentage indicated in scale opposite the number of days or months policy is to run on the premium at given rate, and the result will be the premium earned in case of cancellation. Periods exceeding 20 days, and not exceeding 25 days, to be charged at the rate of 25 days, and so on up to one year.

1 day .....	2 per cent of annual premium
2 days .....	4 " " "
3 " .....	5 " " "
4 " .....	6 " " "
5 " .....	7 " " "
6 " .....	8 " " "
7 " .....	9 " " "
8 " .....	9 " " "
9 " .....	10 " " "
10 " .....	10 " " "
11 " .....	11 " " "
12 " .....	12 " " "
13 " .....	13 " " "
14 " .....	13 " " "
15 " .....	14 " " "
16 " .....	14 " " "
17 " .....	15 " " "
18 " .....	16 " " "
19 " .....	16 " " "
20 " .....	17 " " "
25 " .....	19 " " "
30 " .....	20 " " "
35 " .....	23 " " "

40	days	.....	26	per cent of annual premium
45	"	.....	27	"
50	"	.....	28	"
55	"	.....	29	"
60	"	.....	30	"
65	"	.....	33	"
70	"	.....	36	"
75	"	.....	37	"
80	"	.....	38	"
85	"	.....	39	"
90	"	or three months	40	"
105	"	.....	45	"
120	"	or four months	50	"
135	"	.....	55	"
150	"	or five months	60	"
165	"	.....	65	"
180	"	or six months	70	"
195	"	.....	73	"
210	"	or seven months	75	"
225	"	.....	78	"
240	"	or eight months	80	"
255	"	.....	83	"
270	"	or nine months	85	"
285	"	.....	88	"
300	"	or ten months	90	"
315	"	.....	93	"
330	"	or eleven months	95	"
360	"	or twelve months	100	"

**TWO YEARS.**

For 2 months or less ..... 25 per cent of term premium

Over	2	and not exceeding	4	months	30	"	"	"
"	4	"	6	"	40	"	"	"
"	6	"	8	"	50	"	"	"
"	8	"	10	"	60	"	"	"
"	10	"	12	"	70	"	"	"
"	12	"	14	"	75	"	"	"
"	14	"	16	"	80	"	"	"
"	16	"	18	"	85	"	"	"
"	18	"	20	"	90	"	"	"
"	20	"	22	"	95	"	"	"
"	22	.....	100	"	"	"	"	"

## THREE YEARS.

For 3 months or less .....	25 per cent of term premium
Over 3 and not exceeding 6 months 30	" " "
" 6 " " 9 " 40	" " "
" 9 " " 12 " 50	" " "
" 12 " " 15 " 60	" " "
" 15 " " 18 " 70	" " "
" 18 " " 21 " 75	" " "
" 21 " " 24 " 80	" " "
" 24 " " 27 " 85	" " "
" 27 " " 30 " 90	" " "
" 30 " " 33 " 95	" " "
" 33 months .....	100 "

## FOUR YEARS.

For 4 months or less .....	25 per cent of term premium
Over 4 and not exceeding 8 months 30	" " "
" 8 " " 12 " 40	" " "
" 12 " " 16 " 50	" " "
" 16 " " 20 " 60	" " "
" 20 " " 24 " 70	" " "
" 24 " " 28 " 75	" " "
" 28 " " 32 " 80	" " "
" 32 " " 36 " 85	" " "
" 36 " " 40 " 90	" " "
" 40 " " 44 " 95	" " "
" 44 months .....	100 "

## FIVE YEARS.

For 5 months or less .....	25 per cent of term premium
Over 5 and not exceeding 10 mo's. 30	" " "
" 10 " " 15 " 40	" " "
" 15 " " 20 " 50	" " "
" 20 " " 25 " 60	" " "
" 25 " " 30 " 70	" " "
" 30 " " 35 " 75	" " "
" 35 " " 40 " 80	" " "
" 40 " " 45 " 85	" " "
" 45 " " 50 " 90	" " "
" 50 " " 55 " 95	" " "
" 55 months .....	100 "

## SIX YEARS.

For six months or less .....	25 per cent of term premium
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Over 6 and not exceeding 12 mo's.	30	"	"	"	"
" 12 "	18	" 40	"	"	"
" 18 "	24	" 50	"	"	"
" 24 "	30	" 60	"	"	"
" 30 "	36	" 70	"	"	"
" 36 "	42	" 75	"	"	"
" 42 "	48	" 80	"	"	"
" 48 "	54	" 85	"	"	"
" 54 "	60	" 90	"	"	"
" 60 "	66	" 95	"	"	"
" 66 .....	100	"	"	"	"

## CHAPTER XVI.

### CLASS MUTUALS.

Class Mutuals insure a single line only. New England furnishes a striking example of success in her mill owner's Mutuals. Originally, the annual rate on these great manufacturing establishments was \$2.25 per one hundred dollars. A mill owner who had made some improvements and applied for a reduction of rates was refused with the remark that "A mill is a mill anyhow." He at once made efforts to interest other manufacturers in the formation of a Mutual. He succeeded in organizing a company and in calling attention to the necessity of taking more precautions against fire than were customary at the time. The result was that inspectors were appointed, new methods adopted and finally the risks were so improved that the annual cost is less than ten cents on the one hundred dollars. Most of this is for prevention of fire, the inspection system being still kept up.

#### ADVANTAGES.

Class Mutuals have two peculiar advantages. One is that every one connected with a class Mutual understands thoroughly all the risks. In the case quoted above every one is an expert, knowing all

about a mill, understanding its value, able to see dangerous constructions, and to point out remedies, in short, the whole company is united in measures to reduce the fire waste. The moral hazard is eliminated.

Another advantage is that the risks are very rarely contiguous. There is absolutely no such thing as a conflagration loss. It is impossible. In the smaller towns, most class Mutuals would carry but a single risk. Hence losses which wreck the company are not heard of among these Mutuals. These advantages are giving the class Mutuals a good lead but they are hampered by some restrictions.

Most of them are confined to single states, and find that there is not as much business for them as they should have. This is a matter which will probably be remedied in the future. Some companies are already doing an underground business. The United States supreme court has affirmed the right to every man to buy his indemnity where he pleases without regard to state lines. This does not give agents the right to solicit business in states where the companies have not been regularly admitted. Nor does it give the company itself any legal status, it cannot sue or be sued. Many class Mutuals do business only through the state or national associations and will not insure property unless the owner is a member of one of these bodies. Sometimes the association itself owns the Mutual and in such a case the Insurance company would be entirely without legal status anywhere. While this does not appear to be a desirable

state of affairs, there are many companies, without legal organization, run entirely "upon honor," and it is only fair to say that their members are well satisfied with their workings, no complaint about them has been heard. Hence it would probably be better if some plan could be adopted whereby all companies could be put upon the same footing and all, able to prove their solvency, be admitted to do business in whatever states they desired.

Class Mutuals open the way by which the city merchant can take advantage of the co-operative system. There is a strong tendency everywhere toward Mutualism, but until lately the way has not been clear. But the magnificent success of the Mill Owners' Mutual of the east, reducing the cost of Insurance over ninety per cent, and the economics of other Mutuals organized by associations of dealers, have set people to thinking and it is probable that the next few years will witness a great advance along this line, with the consequent elevation in the standard and in the influence of the local dealers.

### **SUCCESSFUL MUTUALS.**

The following letters from successful Mutuals will give full information on the subject. Mr. J. H. Tinvoorde, of the Retail Merchants Mutual Fire Insurance Company of Minneapolis, Minnesota, writes:

#### **FROM MINNEAPOLIS RETAIL LUMBER.**

"In regard to the expense of conducting business, will state that the average expense ratio to net premiums received has been 26 per cent. That, you

will readily see, is about 14 per cent less than what the old line companies' expense ratio is. In regard to soliciting business, we do a great deal of our soliciting by mail and have one special on the road at the present time, who makes it a business to solicit and inspect what business we have on our books.

"Our company was organized and started to do business in 1900. At the present time we have a little over \$3,000,000 at risk and about two thousand policy holders. Now, as to how many policy holders should a company have before starting. Our state law provides that we shall have \$750,000 in insurance applied for in no less than 350 separate risks. We complied with that provision of the law and began writing business just as soon as we secured the requisite amount, which amount was secured through the mails in less than two months. You will also notice in our by-laws that our policies on mercantile stocks are to be written for one year, no longer; on household goods and dwellings we write them for three years.

"That in brief is the history of our company since its organization. The Retail Lumbermen's Insurance Company, which has been operating in this state for the last eight years, has made a great deal better showing than we have. The same can be said of the Hardware Dealers' Mutual Insurance Company, which began business about the same time we did. It has a great deal less at risk than our company but confines itself to hardware stocks and buildings containing the same, and then will not write any

hardware dealer unless he is a member of the State Hardware Dealers' Association. They have no man on the road and the secretary's salary and office rent is paid jointly by the Insurance company and the state association so that their expense ratio since they have been in business has been but 14 per cent. Their loss ratio during the same period has been but 17 per cent. There is no question in the writer's mind but what Mutuals conducted on business principles are a decided success, speaking for Minnesota."

He enclosed the policy, by-laws and blanks. The policy contains the constitution and by-laws, the policy proper being very nearly of the standard form.

The constitution states the object as follows: "The sole object and purpose of this company shall be to indemnify its members against actual loss or damage by fire or lightning, upon the mutual plan, to and upon their stocks of merchandise, tools and fixtures, and upon buildings containing the same, or either of them, and upon household furniture and dwelling houses, or either thereof."

Policies on stocks of merchandise and fixtures shall be for a term not exceeding one year, on dwelling houses, etc., not exceeding three years. The policy limit is \$3,000. The rates of insurance are fixed from time to time by the board of directors.

"The contingent mutual liability of each member of this company for the payment of losses and expense, not provided for by its cash fund, shall be

a sum equal to and in addition to the premium paid on his policy."

The By-laws concerning the reserve are as follows:

"Section 1. The Board of Directors may, at the end of each year, set aside such sums as they deem reasonable and proper, in no event to exceed twenty-five (25) per cent of the gross profits of the company, for the purpose of creating a special reserve fund.

"Section 2. Such special reserve fund shall belong to the company, shall not be divided among the members thereof, nor shall any member ever be entitled to demand or receive any portion thereof, except in payment of losses. Nor shall any person after ceasing to be a policy holder of the company be entitled to have or receive any portion of said special reserve fund, as dividend or otherwise."

Their statement shows that the company is in good condition. This company has successfully attacked one of the most difficult problems in Mutual Insurance, doing a general business in cities. While the actual figures may not show up with as much brilliancy as those of some others, they are fully as creditable to its management when the character of the work it has undertaken is considered.

#### **ANOTHER COMPANY.**

E. G. Fahnestock, of the Retail Lumbermen's Insurance Association, Minneapolis, Minnesota, says:

“We belong to the few insurance associations that adhere strictly to writing policies only on one line, that of retail lumber yards. We have been organized almost eleven years, refusing during that entire period to add to our policies other merchandise which some retail lumber dealers wish to have covered.

“We limited the amount of insurance carried by us at the time we started to \$3,000 on any one risk or exposure. The board rate for a detached, unfenced yard at that period was \$1.50; a fenced yard, detached, \$1.25. We took that as a basis, requiring them to deposit with us as security, both for the security to policy holders and as a guarantee that the assured will promptly pay any assessments that are levied for the payment of losses and expenses, the deposit to be returned at any time upon the cancellation of the policy, or upon its expiration, less only such unpaid assessments that remain charged against the policy. Each six months we collect what we deem sufficient for the purpose of paying losses and expenses and incidentally to create a surplus fund. We collected for several years forty-eight per cent of this deposit, which left us a surplus each year. After a few years on that basis, we gradually reduced that rate of assessment and about four years ago we were collecting only thirty per cent of the deposit per year, which was sufficient until the year 1903. By that time we had accumulated a surplus of \$33,000, more than was necessary for the payment of losses and expenses. During that year, the floods in Kansas and

Iowa caused us extraordinary losses in the slacking of lime by the rising of water which fired the lumber sheds and stocks of lumber so that we had losses averaging fifty per cent loss ratio for that year. Our losses for the first nine years averaged us twenty per cent of the deposits. The losses in 1903 made our average twenty-five per cent for ten years. We, therefore, on the first of this year resumed the forty-eight per cent rate of assessment and as a consequence we have added about \$27,000 to our surplus and have now in excess of forty thousand dollars unused assessments. This indicates that the cost to our policy holders is from one-third to one-half what the old line companies charged at the time of our organization. These companies, seeing the business drift away from them, commenced reducing their rates. They first reduced to one dollar for fenced yards and one dollar and a quarter for unfenced and then down until they were willing to write insurance at fifty cents to prevent us from getting it. This, however, did not accomplish what they expected, because our policy holders know well that if they drove us out of existence they would very soon restore the original rates. With the reduced rates they lost money and within a year or so have commenced going back to old rates. They now charge 75 cents and \$1.00 for the risks they were carrying at fifty cents and on which they originally charged \$1.25 and \$1.50.

“The Class Mutuals undoubtedly meet with better success than the State Mutuals, which cover all

lines. They can make a better average and are financially stronger."

#### THE GENERAL PLAN.

From its circular the following extracts are taken:

"The Retail Lumbermen's Insurance Association is just what its name indicates, to wit: a Mutual association of retail lumber dealers. Each policy holder is charged each month a fixed percentage upon the amount of his original deposit, sufficient to pay his equitable proportion of all losses and expenses and create a suitable reserve fund for safety in years of extraordinary losses.

"These monthly charges are aggregated semi-annually and put in the form of an assessment, notice of which is sent to the policy holder and in accordance with the articles of the association and by-laws, twenty days is given in which to pay the same. Agreement is made on the part of the policy holder to pay assessments promptly and in the event of failure to do so, to forfeit to the association the entire original deposit. This makes the collection of assessments absolutely sure, and in an experience covering eight years we have had but one deposit thus forfeited.

"The amount of the original deposit on each policy is determined by the old rates formerly paid to reliable stock companies on the same risk. This deposit is placed in the original deposit fund and is returnable to the policy holder upon surrender of

his policy for cancellation, less any unpaid charges against the policy. The object of the plan is to keep the original deposit fund constantly intact and our by-laws explicitly provide that it shall at no time be impaired more than twenty-five per cent; hence the absolute safety of the proposition.

“The maximum amount of insurance which we can write upon any one risk is \$6,000. This is written in two policies of \$3,000. Please note that ‘Series A’ is the old series and ‘Series B’ the new. The latter series was started to accommodate those who desired more than \$3,000 on one risk, and as will be seen by reference to the articles of association and by-laws it is entirely separate and distinct from ‘Series A’ the same as if it were in fact in another company.

“‘Series B,’ inaugurated at the eighth annual meeting in January 1902, started out with half a million of insurance to be written the first day its books were opened and with applications in the hands of the secretary for two millions to be written during the year. No prospective policy holder need hesitate about ‘Series B’ as its success is assured from the start. The volume of business which is sure to come to it is bound to reduce the cost to very nearly that already attained in ‘Series A.’

“Policy No. 26, for \$3,000, written by us March 8, 1894, had been carried for eight years in a stock company. The amount paid to the old line company in eight years for same amount at 1½ per cent rate

was ..... \$ 360.00

From March 8, 1904 to March 1902, with  
us it has cost:

First year .....	\$ 21.60
Second year .....	21.60
Third year .....	21.60
Fourth year .....	20.70
Fifth year .....	16.20
Sixth year .....	16.20
Seventh year .....	15.76
Eighth year .....	13.56
Total .....	\$ 147.22

Amount saved ..... \$ 212.78

“The assessments collected on this policy, the aggregate of which is represented by the amount named, were sufficient to not only pay its proportionate share of all losses and expenses, but contributed its share toward the reserve fund which is a bulwark of strength to the organization and of safety to the policy holders.”

“No person or corporation shall be eligible to membership in this association who is not a member of the Northwestern Lumbermen’s Association, or of some other association of retail lumber dealers with which the said Northwestern Lumbermen’s Association may be in co-operation, unless by consent of the board of directors.”

#### RETAIL HARDWARE.

A. R. Sale, of the Mason City, Iowa, Retail Hardware Dealers’ Mutual Insurance Association, writes:

“Would say that our Association was organized in 1903, following the same lines of organization as the Minnesota Hardware Mutual Company, so far as the legislation in the two states would permit. We collect a full premium in advance and return the unused premium at the expiration of the policy. We have written considerably more than half a million dollars of business since we began, securing most of this by means of correspondence. Our first dividend to policy holders was 20 per cent. The dividend on the second year policies will be declared early in January, and will be considerably more than this.

“With regard to your question, should we have a law authorizing the inter state class or single line Mutuals, we certainly should have a law broad enough to meet the rulings of the highest courts. As a matter of fact, the state laws do not permit us to write outside of our own state.

“We think this is the law in most of the states, but we are protected in so doing, by a ruling of the United States Supreme Court, which permits the insurer to buy his protection where he pleases, in spite of the petty legislation enacted by the influence of the insurance trust.”

#### **ANOTHER.**

The following letter from M. S. Mathews, of the Retail Hardware Dealers' Mutual Insurance Company, of Minneapolis, Minnesota, is to the point. The accompanying statement is excellent, showing low expenses, abundant assets and increasing business.

“Yours of the 22nd, received Thursday. I held it over as we were to have a quarterly meeting and it occurred to the writer that something might come up at that time which would be of interest to you. Nothing occurred except fixing the amount of rebate or ‘Return Premium’ as we call it.

“This year we are paying 30 per cent but commencing January 1st, we pay 35 per cent for the year 1905. Our method is slightly different from that of the Retail Lumbermen’s Company. We write for one year, except when on homes and household goods of our members, when it may be either one, three or five years. We collect the regular or board rate as closely as possible, rebating at the expiration of the policy, as mentioned above. We have been making rapid gains and are making a very good showing. This is getting pretty well along in the year, and we have not been printing any new matter lately. However, we will send along what we have and hope it may prove of interest to you. Where we shine is on the extremely low expense account—10 per cent as you will notice. On examination of the figures you will notice we could pay much larger rebates if it had been deemed advisable. Our management believes in a moderate surplus, hence the small rebate as compared with the earnings.”

**AN EDITORIAL EXPLANATION.**

“During the past year Trade has been asked by subscribers engaged in the hardware business, whether or not there is any hardware dealers’ Mu-

tual fire insurance company, which writes business amongst the dealers of this state, and what conditions must be complied with in order that applications for insurance be accepted.

“For the benefit of those hardware dealers who are interested in this subject, we would say that the Minnesota company has been established several years, and it has been the means of saving thousands of dollars for its policy holders since its incorporation. The insurance laws of Michigan have prevented this company from carrying on any extensive campaign for business in this state, but there is nothing in the insurance laws which prevents them from accepting business when the application is made unsolicited.

“There is one condition, however, which is a very important one, with which this company insists that applicants for insurance must comply. This condition is that applicant be a member of the State Retail Hardware Dealers’ Association. This company having been founded through the efforts of organized hardware men, it is only reasonable that it should insist that none but members who support these organizations should participate in the benefits. President Bogardus of the National Retail Hardware Association, says: ‘The insurance feature of the hardware associations is one of the things to foster. Its value as the companies grow in years and strength, will be more marked every year, and it was a wise move on the part of the hardware men to insure themselves.’ One thing the dealer should re-

member, however, is that the first step to be taken in securing a policy is to become a member of the State Hardware Dealers' Association. We believe it is worth while for dealers to look into this proposition. If there are any hardware men in this state who are interested in this question, we would refer them for further particulars to Secretary M. S. Mathews, of Minneapolis, Minnesota."—From "Trade."

**THE LIST GIVEN BY THE "IRON AGE."**

At the present time there are eight Mutual fire insurance companies which are being conducted indirectly by hardware associations, and are especially intended for insuring hardware stocks, as follows:

The Retail Hardware Dealers' Mutual Fire Insurance Company, of Minnesota, M. S. Mathews, secretary, Boston Block, Minneapolis.

The Ohio Hardware Dealers' Mutual Fire Insurance Company, Geo. M. Gray, secretary; Coshcotton, Ohio.

The National Hardware Mutual Fire Insurance Company of Pennsylvania, W. B. Simpson, secretary; Huntington, Pa.

The Hardware Dealers' Mutual Fire Association of Pennsylvania, W. B. Simpson, secretary; Huntington, Penn.

The Iowa Hardware Dealers' Mutual Insurance Association, A. R. Sale, secretary; Mason City, Iowa.

The Hardware Dealers' Mutual Fire Insurance Company of Wisconsin, C. A. Peck, secretary; Berlin, Wis.

The Missouri Retail Hardware Dealers' Mutual Fire Insurance Company, Fred Neudorff, secretary; St. Joseph, Mo.

Nebraska Hardware Mutual Fire Insurance Company, (organized June 16), F. T. Shepard, secretary; Lincoln, Nebraska.

Several other state associations have companies in process of formation, and the list will probably be enlarged in the course of a few months.

It may interest hardware merchants who are canvassing the question as to placing insurance with Mutual companies, especially dealers who are affiliated with state hardware associations, for only one or two of the above companies accept insurance from non-affiliated merchants, to know something about them, their method of insurance, amount of risk, etc.

Of these companies, the oldest and by far the largest, is that of Minnesota, which is now completing its fifth year of existence. The plan of this company, which is practically the one followed by the others, is to write policies for one year only, at the expiration of which the insured knows to a certainty just the amount of money the Mutual plan has saved him and what his insurance has cost. Each year's business takes care of itself, the premiums being based upon the losses and expenses incurred during that year. At the expiration of a policy the premium to which the insured is entitled is returned to him if he does not desire to continue another year, or is credited to him on renewal of policy. The rate charged for insurance is the established board rate

for the town in which the merchant is located, or if there is none so established, the applicant for insurance is charged the rate any reliable company would ask on the risk. In this way, the insured pays no more than he would pay elsewhere, while the return premium at the end of the year puts him that much ahead. The return premium of the Minnesota association, for policies expiring during the present year, is thirty per cent; this also permitting a substantial addition to the surplus. The company expects to furnish insurance at an actual cost of less than 50 per cent of old line rates.

The other companies, which have all been organized within a year or so, some of them since the beginning of 1904, all follow the same general plan as already stated. Officered as they are by representative merchants of high standing, there is every reason to suppose that they will duplicate the success of the Minnesota company in furnishing safe insurance at a substantial concession from the usual rate.

The Minnesota company accepts insurance from merchants in any state who are members of their state association (and who, of course, are a "good risk"), nearly fifty per cent of their business being with dealers outside of Minnesota.

The Ohio company is not prepared to extend the privilege of insurance to hardware merchants in other states, but it does insure hardware merchants who are not members of the Ohio State Association.

The National company as the name implies, in-

sures dealers anywhere who are affiliated with a state association, this company having been organized for this purpose, under the special auspices of the National Hardware Dealers' Association. The limit of insurance is \$3,000.

The Pennsylvania company accepts risks in any of the states contiguous to the Keystone state. It has no absolute rule limiting insurance to members of associations, and has accepted a few policies from parties in states where there is no association. The insurance limit is \$3,000.

The Iowa company accepts insurance from dealers in adjoining states, and is not yet ready to extend the privilege to others. The limit on a single risk at the present time is \$2,000. Where the policy is written for a larger amount the same is covered by reinsurance. It does not carry more than \$3,000 in any one block, but this is a matter which again is cared for by reinsurance, where it is necessary to accept the insurance for the convenience of dealers. Dividend No. 1 of this company entitles holders of policies written up to February 15, 1904, to a cash rebate of 20 per cent.

The Wisconsin company insures hardware dealers anywhere, provided they are identified with an association. The limit on a single exposure is \$3,000 on either building or stock, or divided between the two.

The Missouri company has not yet commenced taking insurance outside the state, except on approval of the executive committee. It insures only members of associations and limits the risk to \$2,000.

**RETAIL DRUGGISTS.**

John Weyer, Secretary of the Retail Druggists Mutual Fire Insurance Company of Cincinnati, Ohio, writes as follows:

“This Company has been in operation fifteen and a half years, first as an association on the assessment plan, but in 1902, we reincorporated, or advanced to our present form, namely a regular Mutual Fire Insurance Company in which we charge full premiums and return the profits in dividends, after setting a reasonable sum (not to exceed 25 per cent of the net profits) to a permanent reserve fund.

“Our risks are nearly all one class; viz., retail drug stores, a class considered and rated as extra hazardous in the smaller cities and towns, nearly always situated in the congested business districts and therefore subject to conflagration hazard, and in which territory it is well known that rates are seldom, if ever, above the hazard.

“We believed that a drug store was not more hazardous than other mercantile risks, and hoped to save twenty to twenty-five per cent from that source. Second, we expected to save twenty-five per cent at least, by not placing our business in the hands of local agents, but by securing and inspecting our risks ourselves.

“We make our dividends uniform—based on the experience of a series of years—so that the surplus of favorable years pays the losses of the less favorable. We have returned to our members a profit, under the association form of 30 per cent and under

our present form 35 per cent besides adding 10 per cent to 12 per cent to our permanent reserve and a small amount to general surplus. Our average losses for the past ten years have been 27 per cent of the premiums, and our premiums are at least 25 per cent less than the present tariff rates.

“Drug stores are generally subject to a surrounding hazard, over which we have no control, but by personal inspection, giving information regarding the handling of inflammables and avoiding the moral hazard as much as possible, we are able to make this company very profitable to its members.”

#### PLATE GLASS.

These companies insure all kinds of plate glass against breakage from all causes not covered by the ordinary fire policies. There is an enormous business done in that line and the class Mutuals are beginning to look after it. To show the liability to accident of plate glass, the following report of an eastern company of losses adjusted during 1903 is given.

Causes.	Number of Losses.
Stones or other missiles .....	1445
Wind .....	538
Pistol shots .....	106
Burglars .....	187
Settling of building .....	66
Runaway horses .....	71
Explosions .....	82
Drunken persons .....	177

Articles falling against glass .....	446
Imperfect setting .....	8
Transoms falling .....	24
Unknown .....	2454
Cleaning windows .....	55
Doors slamming .....	263
Warping of frames .....	19
Automobiles .....	3

This list is not complete. Irregular expansions from the heat of the sun, heavy hail, earthquakes and other causes come in for their share of breakages.

“The Iowa Plate Glass Mutual Ins. Co. was organized and commenced issuing policies Oct. 20, 1902, with \$104,000 of applications for insurance. Organized under Chapter 5. We collect one half board rates in advance, write the insurance for one year. The amount collected has been sufficient to carry the business for one year, we make one assessment a year. The assured renews his insurance by paying the assessments made on him. In the case of the first payment being sufficient to carry the insurance the first year, the second payment carried it another year.

“We anticipate that we shall not be obliged to raise the rate, but if necessary, we can assess for more money to pay losses and expenses. Unless some calamity should befall us we do not expect any member to ever owe the association anything.—Jas. A. Swallow.”

The use of a state or national association as a filter to strain out extra hazardous risks produces excellent results. The moral hazard is practically eliminated. New ideas are exchanged, new methods adopted and the rate of insurance is continually being driven down toward a minimum. So far, however, it has not been possible to induce all the business establishments in any one line to join the state or national associations. Many of those who remain outside are excellent risks and would insure in a Mutual if they could.

**THESE MUTUALS SHOULD BE ENCOURAGED.**

There are good reasons why class Mutuals should be encouraged. They carry risks cheaply, and they stimulate thrift, but the most important reason of all is that they improve the risks and reduce the dangers of losses by fire. Where only one risk in a block is insured in a Mutual it is likely to be exposed to danger, owing to careless occupants on either side. Should these be insured, each in his own line, the hazard would be greatly reduced.

## CHAPTER XVII.

### STATE FIRE MARSHAL.

R. M. SCOTT, PILLSBURY, KANSAS.

One of the most intricate and important questions that confronts advancing civilization is: How to control the fire loss. The annual annihilation of wealth, the accumulation of ages, the products of labor, skill and genius, is a constant drain upon the resources of our people. Homes, churches, stores, manufacturing establishments and much other public and private property are carried away by the fire fiend. By it homes are desolated, business interests and enterprises are delayed or destroyed and many people are left without employment.

#### ANOTHER OPINION.

The state fire marshal of Ohio in discussing this subject says this loss aggregates in a series of years, a sum which is almost beyond comprehension. Neither the public nor those we term the insured, seem to have any adequate conception of this loss, nor is the fact generally realized that it is the result largely of ignorance, carelessness and incendiarism. It should not be disregarded or passed over lightly, but the means by which it may be reduced should receive our best consideration.

**TREMENDOUS LOSSES.**

Such extravagant public losses from any other source would be the principal subject of investigation and legislation. The fire losses of the United States will average at least \$150,000,000 per annum, while it will exceed that amount for the past few years. According to a report in the St. Louis *Globe Democrat*, this loss in 1904 amounted to \$252,000,000.

One of the most important questions that stirs the blood and troubles the waters of the American people in each succeeding political campaign, is the tariff question, yet the government has usually only collected about \$150,000,000 on imports per year, and all this money is scattered among the people again. The people of this country are losing about the same amount by fire every year, which is a total loss, yet there is practically but little interest taken in this subject and few efforts are made to discover the causes and remedy the evils which produce this enormous loss.

**UNACCOUNTABLE INDIFFERENCE.**

It is difficult to account for such stupidity and indifference on the part of an intelligent and progressive people. It cannot be credited to ignorance among a reading people, for every paper they scan contains a record of one or more destructive fires, with their attendant misery and frequent loss of life. We can only attribute this indifference to a few causes, chief among which is the fact that familiarity breeds indifference and contempt.

Fire losses are as old as human history and some such losses seem to be a kind of necessity of fate arising from the unavoidable contingencies of life. Men are disposed to travel along in the old beaten paths of custom, instead of making the effort and taking the pains necessary to straighten these paths or to climb the hills to the higher planes of enterprise, progress and prosperity.

Another reason for this indifference may be found in the inability of the average mind to grasp the real import of the figures which represent this loss for even a single year. To elucidate this point let us make a few comparisons. The fire loss in this country for 1904 amounted to \$252,000,000 or a daily average of \$690,410, that makes a loss of \$28,767 every hour during the entire year. Perhaps more than one half of the homes occupied by the laboring class of the American people would not cost more than \$1,000. This fire loss would therefore equal the destruction of six hundred and ninety such homes a day. If these losses were confined to such homes, they would render homeless two thousand seven hundred and sixty people every day in the year or in other words, it would be equivalent to the daily destruction of all the residence property in a city of two thousand seven hundred and sixty inhabitants.

This fire loss in 1904 is equal to more than the estimated cost of constructing the Panama Canal by \$20,000,000. It would equal in five years \$1,260,000,-000 or an amount equivalent to our entire national debt.

**A KANSAS PROTEST.**

Hon. W. V. Church, while state superintendent of insurance of Kansas, in an address on this subject, made the following statement:

“If fire disasters were a new evil in the world, humanity would become absolutely horrified in the presence of so great a calamity, and if terror did not rob us of our reason, it is certain that heroic measures would be adopted to stop the ravages of that element which is daily annihilating enormous property values and literally wiping out of existence the best products of human ingenuity and skill. But long association with dangerous conditions as with evil surroundings brings corrupting results, and it seems to me that intelligent men are guilty of criminal negligence in practically refusing to adopt some means for more effectual protection against the ravages of fire.

“From a financial standpoint, the state should be greatly interested in suppressing fire ravages for the reason that our state treasury is yearly robbed of legitimate revenues as the result of the annihilation of taxable property by fire.”

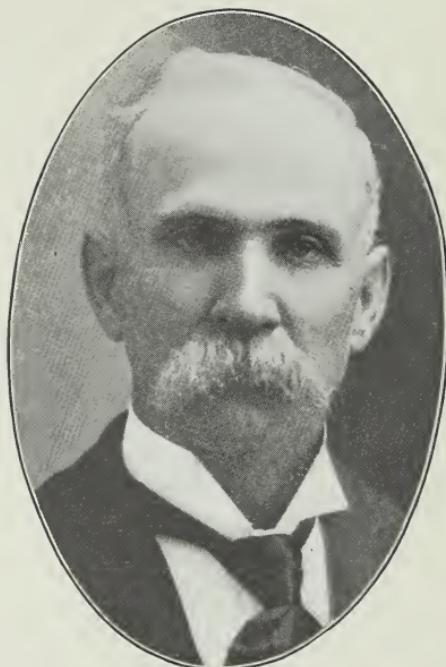
To prescribe a remedy for so great an evil necessarily implies that we must have an intelligent understanding of the causes which produce this evil and the laws which control their operation.

It is an admitted fact that much more than one-half of this enormous fire loss is the result of ignorance, carelessness and crime. Our imperfect statistics show that one-third of it or more is caused by



### **C. S. COLLINS, LITTLE ROCK, ARK.**

He served in the Confederate army. Has a liberal education and has practiced law for years at Little Rock, Arkansas. He was incidentally a legislator, editor, leader in the Bryan movement, on the railroad commission, and recently interested and prominent as an advocate of Mutualism in insurance. He is the father of eight grown children, five sons and three daughters. A "Patriarch" and a wide awake, successful insurance man.



#### **I. F. TALBOTT, McPHERSON, KANSAS.**

Mr. Talbott is a native of Ohio, but has been in Kansas for many years. He has always been a farmer and enjoys country life. He is a strong advocate of co-operation in all its forms. For some years he has been president of the Farmers Alliance Insurance Company, of McPherson, and putting forth the best efforts of his life in its behalf—and successfully, too.

the deliberate purposes of vicious men. Originally envy and maliciousness were principally the causes of incendiarism, but since fire insurance has become a prevalent practice, a new motive has been developed and now incendiarism is practiced very largely as a speculation, or as a means of personal gain.

A careful analysis of the causes that produce fire losses indicates that they are of but two general classes, which we designate as the material, and the moral hazard. In the first class we would include all such losses as result from ignorance, carelessness and accidents, while the second class or moral hazard, includes only fires intentionally caused by men. When we stop to reflect upon the extent of these losses and the causes which produce them, we can readily see the importance of having some authorized officer or agent appointed for the specific purpose of discovering these elements of danger and removing as far as possible such elements and conditions.

Such an officer is termed a fire marshal.

A state fire marshal is the official representative of a department of the state administration, established for the purpose of making a thorough investigation as to the origin and causes of all fires throughout the state; to establish a system of local official inspection that will investigate all classes of property and regulate or remove all dangerous substances and conditions; to suggest and enforce such regulations as will effectually prevent or curtail the destruction of property by fire. If in conducting an examination

as to the origin and cause of any fire, he shall become satisfied that it is of a doubtful and suspicious character, it becomes his duty to make a judicial investigation of the case, to summon and examine witnesses relative to the case, and if he finds that the fire was of incendiary origin and the evidence warrants it, it becomes his duty to prosecute the criminal.

It is his duty to educate the public along the line of dangerous elements and conditions, enforce the laws already existing and suggest other necessary laws for the protection of society from the fire hazard.

#### **EFFECT OF CHANGES.**

The great changes that have taken place in our economic system in recent years, the introduction of new and dangerous substances, such as petroleum, gasoline, natural gas and electricity, and their adoption and use by the public for lighting and heating purposes as well as for motive power, all present new and intricate problems to the public for their solution. The laws that govern these substances and the methods that should be adopted in handling and utilizing them are not fully understood by those most familiar with them, and while experts on these subjects have much to learn about them, it is not surprising that they are dangerous elements in the untutored hands of the public at large.

The changed conditions added to the introduction of the parlor match, together with the long standing carelessness of many people, who often

allow a vast amount of rubbish and inflammable material to accumulate, all suggest the imperative need for a state officer, whose business it shall be to gain and disseminate all needed information on these subjects; one who shall have a complete supervision of the work of inspection and correction throughout the state. He is, in fact, a kind of a property health officer, with a representative in every town and township, whose work is to discover and remove the material for, and causes of fires before they have wrought their work of destruction.

Fire insurance has become one of the most important departments of our great commercial system. If it was destroyed, many of our large business enterprises would be paralyzed and all commercial interests would be seriously affected. Its purpose is to gather a tax from the many property owners and distribute the fund thus accumulated, to the few unfortunates who have sustained loss by fire. It is in fact a great philanthropic institution, based on the divine principle that "We are our brothers' keepers."

Avarice and cupidity have largely perverted this great humane principle, and vicious characters have become so base as to use this benevolent enterprise as a means of direct personal gain; not hesitating to over insure their property and then burn it for the insurance. In many instances they destroy a vast amount of property for their neighbors and the community.

As we have shown above, this class of losses has become a menace to the public safety, so that the changed conditions of our times make the presence of such an officer imperative.

#### **GOOD MEN REQUIRED.**

From the nature and importance of the work to be accomplished, it is apparent that it cannot be performed by any of our ordinary official forces, as it will require all the time of one or more men. It will require a man of rare talent and technical education to conduct the affairs of this office. He will need all the tact and skill of a detective, the courage and persistency of a policeman, the legal knowledge of an attorney and the technical knowledge of the scientist, with the practical knowledge and experience of an architect. He could materially and permanently reduce the fire hazard by laying down the rules for the construction and repairing of various classes of buildings by directing as to what kind of material should be used and the methods to be employed for ventilation, lighting and heating purposes.

It will require all the time and energy of this officer to organize and conduct the business of this department of the state administration, and he will need the assistance of one or more deputies and stenographers for the work of this office. He must direct the efforts and receive and chronicle the reports of the fire chiefs and other officers of this department throughout the state. He will need complete facilities and equipments for his office and work.

The best and most satisfactory teacher is observation and experience; therefore we will give a few extracts from the official reports of the state fire marshals of several states which have tested the fire marshal law. The quotations will explain the nature and importance of the work of this office.

**FROM OHIO.**

The state fire marshal of Ohio in his report for 1903 under the head of "Inspection" says: "It is evident from the nature of various causes we have discussed that carelessness either directly or indirectly in its many forms is the most prolific of all causes of fires. This being the case, there is no doubt that careful and thorough inspection and the discovery and remedy of those conditions most liable to cause fires will bring a marked decrease in the number of fires and the consequent damage. During the latter part of the year, we have been giving some attention to inspection in our large cities. Two thousand seven hundred and thirty buildings have been examined and many dangerous conditions have been discovered and ordered remedied."

In discussing the various causes of fires under the class he terms "unknown causes," the fire marshal says: "During the past year 999 fires have occurred, the causes of which were unknown, this number shows a decrease when compared with the year 1901 or 1902. As the closer investigation of fires progresses, the number of 'unknown causes' will decrease, although it may never be possible to

ascertain the cause of every fire; especially will this be true of fires where the property concerned has been entirely consumed. In my report of last year it is estimated that of the number of fires reported as 'unknown' at least fifty per cent should be considered as incendiary and I am still of the same opinion."

In discussing the subject of gas, he says: "During the past year 206 fires have resulted from carelessness in the use of gas. Twenty-five per cent of this number were caused by the use of rubber tubing for conveying gas from the permanent piping to stoves, grates and burners. Gas soon destroys rubber, especially the poor quality, thus causing leaks, many deaths from asphyxiation and explosion have resulted, often followed by a heavy loss of property from this pernicious practice."

We give below a few quotations from the Ohio fire marshal's report for 1904. "This (report) shows the number of fires during the first calendar year after the creation of the office of fire marshal to have been more than 1,000 greater than the average number in the subsequent three years.

"The parlor match has attained the perfection of utility and, at the same time has become responsible for a greater loss of property than any other single invention of man. In Ohio the burning of buildings by carelessness with these matches is a continuous performance, the attending light is never allowed entirely to go out, because a new fire is started for each sixteen hours.

“Of the 446 fires in 1904 from carelessness with matches, 122 were from children, 298 from those of mature years and 22 from rats or mice. The Spectator says that a parlor match was responsible for the Sioux City fire, which resulted in the heaviest loss in the west during 1904. A man stepped on the match and the blazing head flew into a pile of cotton batting near by.”

Under the head of defective flues, he says: “The cost of fire departments added to the \$6,850,000 of direct annual loss from fires equals fifteen per cent of the total year’s product of all the industries of the state. That is to say, every producer gives one and one-half hours out of each ten-hour day to making good the state’s fire loss. This loss is distributed through insurance.

“Each of the 729 fires in Ohio last year from defective flues, could have been prevented easily. If the public can be persuaded to form the habit of examining occasionally their flues, etc., the annual contribution to negligence will be lessened by half a million dollars.

“The 729 fires are all from faulty construction or deterioration of chimneys or stove pipes. This figure does not include the 125 fires from soot burning out, 14 from cupolas, nor 5 from open stove-pipe holes, neither does it include any of the 666 fires chargeable to sparks from chimneys.”

Under the head of “Rats as Fire Bugs,” he says: “Rats cause many fires and the majority of them go to swell that always embarrassing figure to the fire marshal, the footings of the fires reported

‘Origin Unknown’. During last year Ohio rats were convicted as incendiaries in twenty-six cases, and suspected in several hundred. Rats and matches are known to have caused 136 fires in Massachusetts during last year, with a loss of \$133,577 as reported by the fire marshal of that state. A recent fire was extinguished in its incipiency, and in a paste-board box, were found several rats and some charred matches.

“This cost to insurance companies is cost to the whole people, for the companies are but public servants whose only function is the distributing of the fire loss among property owners. The tenant’s share has been collected in advance as part of his rent. In Ohio last year 91 buildings were fired by hot ashes being put in wooden boxes or thrown against the siding of houses or sheds. This figure does not include the fires from tobacco pipe ashes nor those caused by hot ashes falling from stoves or grates.”

We have only been able to give a few brief extracts from these reports, but want to add a few sentences extracted from only a few important headings.

“Tobacco smokers cost the state \$122,321 in 1904. The great conflagration at Baltimore and at Knoxville both started with a smoke explosion.”

“Natural gas secretes more terrible possibilities than any other combustible used as a domestic fuel. Asphyxiation, which is so common from flueless natural gas stoves burning in the bed room, results from the breathing of this poisonous carbon monoxide, produced by heating the stove red hot and not from

breathing natural gas. The carbonic oxides are the suffocating element in the smoke from all combustion."

"The number of buildings fired by carelessness with gas jets during the year in Ohio was 98. The fixture which causes the most earnest criticism from fire marshals while making inspection is the swinging jet. A jet should not be within two and one half feet of the ceiling."

"The number of fatalities from the leaking of illuminating gas is not only large but increasing. Flying sparks cost Ohio \$2,000,000 a year."

The work of the fire marshal in removing those elements of danger which we have designated as material hazard is clearly indicated in the report of the state fire marshal of Connecticut for 1903, which is as follows: "There were 1472 fires reported, 87 were either incendiary, suspicious or mysterious, (clearly incendiary 51), unknown 318.

"Moral:—It is most difficult to obtain sufficient evidence to secure conviction in a case of arson, but I feel warranted in the statement from the experience in investigating fires of incendiary origin; that the investigation has its good effect, although the incendiary is not apprehended. The moral effect is good and may deter others from an attempt at incendiarism.

#### NECESSITY OF INSPECTION.

"In order to illustrate the necessity of inspections and show the danger from accumulation of inflammable material, etc.: while this office was inspect-

ing a store in the business center of one of our larger cities, in descending the cellar stairs, which were covered with paper and rubbish, a match was ignited by being stepped upon, starting a blaze and only speedy action averted what might have been a serious fire, as the stairs and floor of the cellar were covered to the depth of fully six inches with paper and rubbish. In my opinion the value of inspections, that have been carried on by this office for correcting conditions, as stated above, is one of the important branches of the work of this department.”

#### **FROM MARYLAND.**

The state fire marshal of Maryland in his report for 1901 said: “I have ample testimony to lead me to believe that the prompt work of this department, supplemented by that of the Baltimore city detective force, has greatly reduced the number of incendiary fires in Maryland. Besides the practical good that has been accomplished the moral effect of these investigations, I am assured, has been felt throughout the state.”

The state fire marshal of Maryland in his report for 1901, in discussing the subject of investigation, says: “The entire cost of maintaining the office of fire marshal for Maryland is \$5,500, a mere pittance when compared with the good that has been and may be done through this agency, without mentioning further the moral effect of a perpetual maintenance of such a department of inquest. I have saved more than the amount mentioned to the insurance

companies this year in the blocking of several fire loss claims on the part of persons against whom there was not sufficient evidence to convict of incendiaryism, but who when the facts were laid before them by this office, very discreetly decided not to claim anything like the amount they had originally fixed as the total loss."

Men guilty of crime are not always convicted, but by precaution and vigilance, the fire marshal may be able as in the case cited, to prevent the crime of extortion being added to that of arson.

The state fire marshal of Ohio in his annual report for 1903 says: "Crime of whatever kind as a public hazard can only be reduced to a minimum by extreme vigilance on the part of the public officials, followed by a rigid and certain execution of the laws, and this applies aptly to the crime of incendiaryism. The object of the prosecution of arson, however, is not simply to convict the guilty, but rather to protect the community by making conspicuous the result of wrong doing, thereby deterring others from committing like crimes.

"This office has investigated during the last year 1,664 fires. In each case a statement of the facts, together with the findings of the deputy or assistant making the investigation, is now on file and a part of the records of this office. Ninety-one persons have been arrested charged with arson, five fled from the state before arrest, forty-six were bound over to grand juries, seventy-six were indicted (many cases having been taken directly to grand juries), twelve were acquitted, thirty-six were con-

victed, nine committed to insane asylums and twenty-seven cases are pending trial at this time.

“The motives prompting those who have committed arson during the last year have been varied, but as shown by table No. 9 the desire to defraud insurance companies has prompted the commission of arson in more than two-thirds of the cases where convictions have been secured; and this is due to the fact that this class of arsonists are largely in the majority and not because it has been less difficult to convict where such a motive exists. The utter disregard of this class of offenders for the property and lives of their neighbors, makes them the most dangerous and culpable of criminals; and yet the examination of the prison statistics of this state shows that up to the time the fire marshal law went into effect, there was not an average of two convictions each year for burning property with intent to defraud insurance companies.

“There were more successful prosecutions for this crime during last year than were had in Ohio during the fifteen years preceding the establishment of this office, and there were more successful prosecutions in the three and one-half years of its existence than there were in fifty years preceding. This success is gratifying. The number of convictions during 1903, as shown by the above, has far exceeded that of any former year, and there has been a steady increase from the beginning. The results obtained during the last year are in my judgment due to the efficiency which experience has made possible. The barriers which invariably surround the ferreting out

of a mysterious fire can only be surmounted by men who have natural tact for the work, combined with knowledge of human nature and experience in dealing with arson cases. The fact of an increased number of convictions for arson during the past does not imply that incendiaryism is increasing, for a number of those convicted were charged with having committed the crime several years before this office was established.

“It necessarily follows that the more effectually incendiaryism is suppressed, the greater the possibility of lowering insurance rates. The interests of the people and of the insurance companies are identical. The companies are the agents of the public, charged with the distribution of trust funds. Whenever a company is swindled, the loss is eventually paid by the public, each member of the community bearing directly or indirectly a share of the burden. There is no crime in the category of felonies which is committed more often than that of arson. Being so prevalent, it is difficult in many instances to secure a verdict supported and demanded by the evidence.

#### **MAWKISH SENTIMENT.**

“Unwarranted and perverted public sentiment for the incendiary who destroys his property for the insurance, frequently carries acquittal to the hearts of the jurors, although the facts and circumstances prove guilt quite beyond a reasonable doubt. To defraud an insurance company is argued to be justifiable, if not really believed, thereby creating a senti-

ment which influences the commission of this particular crime, increases the moral hazard and moulds false verdicts, a condition deplored by every honorable and law-abiding citizen.”

The fire marshal of Ohio in his report for 1904 says: “One of the important duties of this office is to make universal the impression that the incendiary will be swiftly prosecuted and inevitably punished. That it has a powerful deterrent effect upon those prompted to arson is shown by the fact that the annual number of fires has been reduced by 129. The number of incendiary fires in the state has regularly decreased since the creation of the office of fire marshal, while owing to the natural increase in the number of buildings in the state, fires from accidental causes show no such marked diminution in number.”

#### **FROM MASSACHUSETTS.**

The state fire marshal of Massachusetts in his report for 1903, says: “Of the total number of fires 209, or 4.28 per cent were of incendiary origin. The total sound valuation of property damaged by incendiary fires was \$1,111,615, total insurance covering same \$906,462, total loss on same \$323,683.

“Two hundred and fifty-eight fires were of unknown origin. The total sound valuation of property damaged by such fires, was \$8,731,532, loss on same \$1,412,560.

“The total number of arrests for burning and arson for 1903 was ninety-seven. Of this number, five cases under indictment have been continued to

future terms of court. There have been fifty-seven convictions. Percentage of convictions to arrests, sixty-two.

“In reviewing the work of the past year, it is gratifying to find, that the number of incendiary fires has been less than in any other year since the organization of this department. I am also pleased to report a reduction in the number of fires of unknown origin. The total for the past year being two hundred and fifty-eight, as against three hundred and sixty-five for the previous year.”

The total per cent of the incendiary fire loss, when the fire marshal department was established, amounted to thirty-three per cent of the annual fire loss.

In his report for 1904, the fire marshal says: “The total number of arrests for arson in 1904 was seventy-nine, there have been fifty-four convictions. Percentage of convictions to arrests, seventy. Ten persons in addition have been indicted and held for trial.

“By an act of the legislature the fire marshal department was abolished and its powers and duties transferred to the detective department of the district police, and placed in charge of the able and efficient officer Geo. C. Neal, deputy chief of the detective and fire inspection department. Said act became a law June 8th, 1904, giving to the members of the fire inspection department all of the powers and duties of a detective officer as well as that of fire inspector.

“This was a move in the right direction, as it empowered them with authority to serve subpoenas and precepts of the court, investigate fires, and perform such other detective duties as might be assigned to them by the executive officer. It also provides that the chief of the department may detail detective officers for the investigation of fires. It is somewhat surprising to learn of the carelessness of the public generally as to the cause of fires. It seems to be the inclination of the average person who is insured to depend entirely upon his insurance to cover any loss that may happen as the result of fire upon the premises insured. I have so many examples of carelessness regarding fire, that I feel it is my duty to call attention of the public generally to their negligence in this direction; and if the advice were heeded many accidental fires would be prevented. For instance the use of swinging gas brackets near lace curtains, with the window open to the breeze; the use of wooden cuspidors; the careless use of matches and kerosene; and various other means by which accidental fires occur.

“I would recommend that in every household, some means of subduing an incipient fire be provided, such as a fire extinguisher or hand grenade. This oftentimes would prevent a serious conflagration, the expense is trifling compared with the annual loss.”

The state fire marshal of Ohio, in his report for 1901, says: “The fire marshal law has proved efficient in a large number of cases in bringing about the

prosecution and conviction of criminals, and has been of great benefit to local authorities in their efforts to remedy the inflammable condition of buildings, and remove combustible material, especially in the larger towns and cities.

**ARSON.**

“It seems very difficult to impress upon the minds of the people that the man who commits arson, jeopardizes life as well as property. It is a crime against the public at large. When public opinion is awakened to the fact that the enormous fire loss of the state is as directly a tax upon the property of its citizens paid to the insurance companies, in premiums and assessments, to be equalized and distributed as is the school tax or road tax paid to the county treasurer; and whenever the public learns to appreciate the fact that arson is a greater crime and deserves more severe punishment than that of burglary and equal felonies; juries will be guided in their findings by good law and common sense. The burglar takes from the owner his money and diamonds which is a change of possession, the money is still in circulation, and the value of the diamonds is not destroyed, but the fire-bug turns property into smoke and ashes, destroys values, which is a total loss.

“Because of the investigations, arrests and convictions made by this department many of our citizens are giving better attention to the fundamental principles of insurance as well as to the different causes for the great fire waste in the state and the motives of criminals in the cases of arson.

“It is invariably true that in localities where incendiaries have been vigorously prosecuted, whether convicted or not, a more wholesome condition exists. In several sections of the state incendiary fires had been so frequent that the insurance companies were driven out, the loss being larger than the premium received, and the people were unable to secure indemnity at reasonable rates, and in some cases no protection at all. There were 1,267 fires of unknown and incendiary origin, the value of property lost was \$2,009,175. From the evidence taken and from the light of facts developed in the examination of fires of this character, we believe that more than one-half of these fires were of incendiary origin. We therefore estimate that during the last year the incendiary caused a loss to the state of Ohio of not less than \$1,500,000, or nearly 25 per cent of total loss of \$7,232,010.”

While the motives for committing the crime of arson are varied there can be no doubt that the prevalent one is the desire for pecuniary profit.

The same officer in his report for 1902 says: “The incendiary who was actuated to set fire to defraud an insurance company is observed to comprise the largest class. He intelligently and carefully lays his plans in some cases beginning months before the intended fire by padding the inventory, by disposing of as much of his stock as possible, etc. Having procured all the insurance possible and carefully laid his plans for the fire, etc.—the fire occurs.”

In an address before the Ohio legislature, Charles W. Whitcomb, state fire marshal of Massa-

chusetts, said among other things: "The moral effect of the past work of the office has had a great deterrent effect in preventing crime, thereby saving lives and property, by convincing those that would otherwise apply the torch that a policeman was on the beat and that there was therefore a much greater risk of being criminally punished than under the present system, and also by holding up before them the experience of many others, who have found that there was no profit in trying to defraud insurance companies, and the people who honestly support them in the state of Massachusetts.

It would seem as though statistics would prove conclusively and to the satisfaction of every sister state that a proper protection to property and life, which the people have a right to expect of their state government would demand universal establishment of similar systems, (fire marshals), throughout the states. According to statistics given in the Chronicle Fire Tables for 1893 and covering the whole United States, in ten states the percentage of incendiary fires to the whole number reported was forty to eighty, and in nineteen states the percentage was from twenty to forty.

It has a tendency to deter those who have a desire to commit the crime of arson. The superintendent of insurance of Ohio, after explaining the benefit of investigating all suspicious fires, says: "Of the total number of convictions for arson the motive of the majority was to secure insurance. Our investigations have materially reduced the number of fires from this source. We note that these repeating fire-

bugs have been driven from Ohio to states where there is no fire marshal, to continue their detestable crimes."

It seems to us that the evidence of the necessities for, and the advantages of a state fire marshal are overwhelming; especially as they do not rest on a mere theory of public economy, but are fully verified by the ample testimony of a number of persons in various states, who speak from their own actual experience in this line of work.

Their testimony is especially valuable, as they all agree in their evidence upon every important point and with the judgment and experience of all capable officers who have investigated the subject.

It is in line with universal experience and common sense. This office, therefore, is an imperative necessity in every civilized state.

### **BETTER CONSTRUCTION.**

The average frame dwelling house is a fire trap. The wonder is not that so many burn, but that so many escape being reduced to ashes. Insurance companies are beginning to see that the loss rate might be materially reduced and are commencing a series of investigations which will in due time furnish valuable information. The problem to be solved is how to change the present method of construction so that buildings may be made safer without any appreciable increase of cost for labor or material. It is evident that great changes in the style of work are almost invariably accompanied by increase of cost. This must be avoided.

Inspecting in cases of fire, observing the progress of conflagrations, following the course of the blaze from the beginning to the end, all this work will give valuable information as to where and how fires start and how they spread, what styles of constructions permit the easy extinguishment of flames, and how present constructions often make it impossible to save a building if the flames once get started.

Beginning with the foundation, it should be solid and vermin proof. The material should be laid in cement or plaster, and the whole should rest upon a footing course below frost, wider than the foundation wall, and projecting out beyond it nearly a foot. Vermin will dig under an ordinary straight wall, but when they go down and come to what appears to be a flat rock they will give up the effort. Most foundations are now made in this manner. When the superstructure is erected the spaces above the foundation and between the joists should be solidly filled with brick, cement blocks, or other solid material. This will prevent vermin getting through from the cellar to the upper part of the house. And if a fire occurs in the cellar it will prevent it from running up between the plastering and the siding. The extra expense of doing all this work thoroughly is a mere trifle, the resulting comfort, safety, saving in fuel, freedom from danger of freezing in the cellar, and the riddance from vermin will pay for it many times over every year. The house will stand firmer, there will be no trouble with windows and doors and the building will last many years longer.

**DANGEROUS PLACES.**

In erecting the building, it is usual to put on sheeting and siding and to leave air spaces between these and the lathing and plastering on the inside. These air spaces not infrequently run from the ground to the roof. If a fire gets into one of these, the draft is strong, and no water can be made to reach the blaze even if it could be located. There is nothing to do but to let it burn through one side or the other. There is especial danger from collections of trash, dead leaves, etc., against the sides of houses in dry weather. A spark falling in one of these piles smolders a while, the draft up the air space fans it into a fire and then there is trouble. The firemen arrive and to find the fire they rip off siding and sheeting on the outside, cut holes through the plastering on the inside and thus no end of damage occurs. If the style of construction described above had been adopted, and in addition the air spaces between the plastering and siding had been shut off by a layer of grout, cement, brick or anything which a rat could not dig through, the danger of all such fires would have been avoided.

At each floor, care should be taken to shut off the air spaces in the same manner. No places for fire should be left between the walls. The question may be asked, Why is so much emphasis placed upon keeping out rats? For several reasons. The holes which they gnaw through the walls let fire through in case it breaks out, they gnaw matches and thus start fires, and they accumulate rags and grease in their

nests and thus prepare the necessary conditions for spontaneous combustion. In addition to these disagreeable characteristics the rat is dirty, destructive, and carries contagious diseases.

The construction of chimneys is discussed elsewhere. It is only necessary to repeat here that they should be on a solid support, should be smooth outside and inside and well constructed. They should be high enough to have good draft and to throw all sparks clear of the building.

The inside woodwork should be hardwood where the cost is not prohibitive. If of pine, it should be finished with some slow-burning paint or varnish. The common materials used for such purposes are dangerous in the extreme.

Ornamental cornices and all such work should be of metal. Roofs should be of slate or metal wherever practicable. If of shingles they should be dipped in some slow-burning paint before being laid on. The nature of the paint should be ascertained by actual experiment, testing a few shingles prepared with it in comparison with an equal number in their natural state. Shingles which wrinkle up and catch dirt should be removed. They make good lodging places for sparks.

This is simply a description of a well built house. The difference between it and a poorly built house in comfort, durability and fire risk is enormous, while the cost is almost the same. The materials in both are the same in cost for the most part. A trifle extra is expended on the foundation, a little on the shutting of the air spaces. There should be no other extra

expense, as finishing and painting should cost no more in one style than in the other.

This style of building recommends itself. It simply needs explaining to the public. Mutual agents can do a great service to the public in their inspections if they call the attention of property owners to the defects and dangerous exposures in their buildings. While the best time to rectify all these matters is when the building is being erected, there are many errors which can be corrected afterwards. All that the agent can do to reduce the loss will help the company, help his neighbors, and help himself. If the fire loss can be reduced it will of course follow that the fire premiums will be reduced also.

The means of preventing or extinguishing fires should be looked after. What is the water supply? Is there a well close at hand, with a good pump and a tank always full of water, or is it at a distance, and provided only with a rope and bucket?

What kind of protective apparatus is at hand? Hand extinguishers are sold and many are recommended. But in the ordinary dwelling house they are rarely seen. Many people make it a custom to fill two or three buckets with water every evening and leave them where they will be handy should fire break out in the night. This is commendable, one or two buckets of water might be kept on the upper floors.

#### **HOW TO FIGHT FIRE.**

A few hints on how to fight fire will be useful. The first necessity is self control. It is well to be energetic but not well to exert so much force as to

break the pump handle at the very first stroke. It is well also to know what kind of a fire is to be put out, and then to use the right means. Oil, varnish, turpentine, gasoline, and similar materials can be smothered out with blankets, or absorbed by fine dust, ashes, sand, flour, etc. The blaze once smothered, the trouble is over, the rest of the work is easy. But water thrown upon such a fire will scatter it. Woolen blankets are best to use for such purposes, and if there is time, they should be wet. Should one's clothing take fire, smother it out with blankets, rugs, carpets or anything handy and do it quick. In all these cases use water to extinguish the embers after the blaze has been put out.

If fire breaks out in anything which can be handled, in a box or barrel, if a lamp or gasoline stove takes fire it should be thrown out of doors. If a lamp upsets and breaks, smother the blaze with a cloth. In most cases it is best not to open the doors and windows and let in the air.

When fire occurs in a closet, or the floor, or in the side wall, water is the thing. Women often mop out fires in such places, and one cool headed woman with a mop is worth a dozen excited men and boys. People who have helped put out prairie fires know the efficiency of a wet gunny sack in slapping out a blaze. These methods are available where the water supply is limited. There should be a ladder at every residence long enough to reach the roof. It may be useful in saving life or property if the stairs should catch fire.

Barns, stables, and similar buildings are generally a total loss if the fire gets a good start. A fire in a haymow is generally uncontrollable as there is usually nothing at hand to fight it with. If the fire is confined to a small space it may be smothered with blankets, wagon sheets and other hay, but water must follow at once. The tramp and his pipe are the cause of many haymow fires and the vagrant never gives an alarm but sneaks off, leaving the property to burn. Similar conditions sometimes exist when boys engage in forbidden sports.

Coolness and self possession are absolutely necessary. An excited man will do more harm than good. He will open the doors and windows to give a fire draft, he will throw water anywhere but on the fire, and he will destroy nearly everything he tries to remove from the house. Old firemen know that this picture is not in the least exaggerated. In fact, at a fire it is often necessary to make a detail to keep those excited people out of mischief. But cool, prompt action will often save a building when the case at first appears hopeless.

The state fire marshal of Ohio has made some figures. After showing that the fire losses distribute themselves all over the community, he says: "The annual fire loss plus the cost of fire departments is equal to fifteen per cent of the total year's product of all the industries of the state. So each producer gives one and a half hours out of each ten hour day to make good the fire loss."

## CHAPTER XVIII.

### LIVE STOCK INSURANCE.

There is much disagreement on this question, not only among companies widely separated, but among those operating in the same territory. No plan has been evolved, adapted to all companies, as risks vary in different localities. A herd on the Colorado range and cattle in a well fenced Ohio pasture are very different risks, while on the Pacific coast there is no danger whatever from lightning.

Perhaps the oldest plan is the go-as-you-please method of permitting each policy holder to place what insurance he pleases upon his cattle, without regard to number or value, and when a loss occurs pay him for what has been killed up to the full amount of his policy. This plan certainly has the merit of simplicity. Occasionally, a company is found which still adheres to it and claims that it is satisfactory, but most companies say that experience has taught them that it is not equitable, that an undue proportion of the income of the company is required to pay for losses on live stock.

#### VARIOUS PLANS

Various modifications have been tried. Some limit the amount to be paid on each animal to a specific sum, or to a certain proportion of its value;

others insist that a certain proportion of the herd shall be insured; others still combine both these methods. Companies were driven to adopt these plans by the complaint about assessments by those who had no live stock. At the outset a cattle man with a hundred head would insure ten, but when one was killed by lightning, it was always one of the ten. Owners of buildings and personal property complained that the cattle man could protect his herd by insuring a small part of it, while they had to insure the whole of their property. But the real trouble, after all, was, as above stated, the fact that the live stock did not pay its losses.

Meanwhile, many companies began a careful investigation of their books. They found exactly what this class of risks costs, and were then prepared to act intelligently. Of course the matter was not easily arranged. Occasionally a company cut the knot it could not untie and erected the live stock insurance into a department by itself, paying its own losses from its own assessments. Generally the changes were along other lines. At first the proportion of the cattle to be insured was increased to half or three-fourths. Finally many companies adopted the plan of paying pro rata for losses. If a hundred cattle were insured for a thousand dollars, in case of loss the owner would receive ten dollars each. In case he added to the herd he increased the points of risk and the sum in his policy would still be divided by the number of his herd to ascertain the amount to be paid for each animal in case of loss. The same principle would apply if he reduced his herd. He

would get a larger sum for each animal up to a certain amount named in the policy. Prudent policy holders generally notify the company of changes and have them entered on the policy and thus save all trouble. Under these circumstances, live stock pays its proportion and each policy holder knows just what he is doing. Another change from early methods is in dealing with valuable animals, stallions, pedigreed stock, etc. Formerly they were appraised and paid for along with the others. Then the limit was put on which reduced them to the level of ordinary stock. This was equally unsatisfactory. There seems to be no better method than insuring such animals by themselves, by name, number or description, and placing a value upon each.

#### PROOF OF LOSS.

Direct proof is not to be had under ordinary circumstances. Rarely does anyone see an animal knocked down by lightning. Usually the owner, looking over his field, finds it dead. What killed it? There are no indications. There was a storm a few days ago, it must have been the lightning. So a couple of neighbors are summoned, they agree with the owner and the necessary affidavits are made out and sent in and the company pays. That is all. True, there are occasionally other indications, as when dead animals are found along a wire fence or under a splintered tree, but usually it is as above stated.

All indications for ascertaining whether or not the animal has been killed by lightning, such as loose teeth, black tongue, etc., have so far proved totally

useless. Possibly dissection by a competent veterinary surgeon might sometimes show that lightning was not the cause of death, but to make such examinations would generally cost more than to pay the claim.

No exclusive method can be laid down. Local conditions, old customs, etc., will require companies to adopt different methods in different places and live stock insurance is no exception to the general rule.

#### RATES.

The rate for insurance against loss by lightning will vary with the climatic conditions of the locality, thunder storms being more prevalent in some regions than in others. But in all cases where there are wire fences a reduction should be made when the wires are properly grounded. This can be done by attaching wire, preferably a size larger than the fence wire, and burying the ends in the ground. Care should be taken that ground wires come into actual contact with the fence wires. They should be twisted tightly two or three times around them. Where one wire is used, as for telephone purposes, it must remain insulated, but the others should be grounded. Telegraph companies use a lightning arrester, something like a comb with sharp teeth almost in contact with the wire. It draws off the electricity. Something like this will probably be made for use on fence wires and telephones. A wire fence, properly grounded, is a protection to cattle in a field; if not grounded, it is an element of danger.

## FROM AN OLD ADJUSTER.

The following article is by V. Goodsheller of McPherson, Kansas. It covers the ground and furnishes much valuable information.

In six and one-half years as adjuster for the Farmers' Alliance Insurance Company of McPherson, Kansas, I have had some little experience in adjusting live stock losses.

When we first commenced insuring live stock, we issued a blanket clause on all live stock owned by the assured and the contract read that the assured carry not less than one-half on all live stock owned and in case of loss the company should pay market value of animals killed.

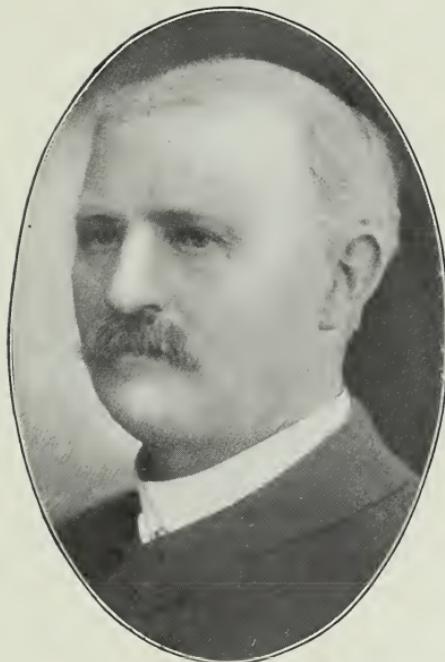
The first difficulty encountered under this clause was that assured would increase his herd in some cases to ten times the number and value of insurance carried and still expect and insist on the company paying him market value in case of loss. This we did for awhile, but found that live stock insurance under such a contract did not pay its way. Of course the deficiency had to be met from premiums and assessments received from insuring other property, which was burdensome to those of our patrons who did not increase their herd or who carried insurance only on other property. So we evolved the plan of prorating the man who had increased his herd by making him furnish a statement of the value of his live stock at time of loss. If he carried \$500 insurance, the company would pay him market value provided the market value of all his stock at

the time when the loss occurred did not exceed \$1,000, but if his stock invoiced \$2,000, he would only get one-half. But even this plan did not equalize the premiums, so we tried the three-fourths plan, making the assured carry or pay premium on three-fourths value of live stock in order to obtain market value, allowing him to increase his herd twenty per cent before we would pro rate him on a loss. This plan we also found inefficient and complicated, for the average farmer gets confused when you talk to him of percentages and prorating. At last, however, we hit upon the plan of always paying according to insurance carried. The assured may carry \$10, \$15 or \$30 a head on his cattle, and in case of loss the amount he carries is always divided by the number of head he owns at the time of loss, with a proviso, however, that the company shall in no case be liable for more than double the amount placed on each head by assured.

Under this plan the assured receives just exactly what he pays premium on and no more. We have had this plan in operation over six years and find it gives satisfaction to both the company and its patrons. There is no haggling over the price or value of the animal killed; when proof is made the loss adjusts itself.

#### **PARTICULARS REQUIRED.**

But the proof is where the rub comes in. We require a sworn statement, substantiated by sworn statements of at least two witnesses, living contiguous to claimant, both being land owners.



#### **R. M. SCOTT, PITTSBURG, KANSAS.**

Mr. Scott is the president of the National Mutual Insurance Association of Pittsburg, a go ahead institution which is growing rapidly. Mr. Scott is energetic, active, and is a thoroughgoing co-operator. He never loses an opportunity to advocate the cause he has espoused.



### **C. M. McMILLAN, CARTHAGE, MO.**

Mr. McMillan is president of the Carthage District Mutual Cyclone Insurance Company, is state vice president of the National Association of Mutual Association of Mutual Fire Insurance Companies, has filled the position of vice president and acted on several important committees. He farms on an extensive scale, is a thorough business man, and a strong advocate of Mutualism, especially of Mutual Fire Insurance.

1st.—Giving date and hour as near as possible when animal was killed.

2nd.—That there was an electrical storm at that time.

3rd.—How long before the storm the animal was seen.

4th.—What marks were found on animal to indicate lightning.

5th.—How long after the storm the animal was found.

6th.—Give position of body when found.

7th.—Give distance from wire fence, trees or buildings where body was found.

8th—Were there any marks of lightning on these?

9th.—State where such animal was when killed, or injured, whether in barn, on prairie or on public highway.

10th.—Did you have any other insurance on such animal when killed, if so, give name of company and for what amount.

11th.—Was such animal perfectly healthy preceding the storm, if not, state in what respect.

12th.—Had such animal ever been sick or diseased? If so, state particularly when and what the nature was.

13th.—By whom was the dead animal first discovered?

14th—That the said deponent further states that nothing has been done, or by his privity or consent

to violate the conditions of his policy or render it void.

15th.—We require a complete invoice of all stock owned of the class in which loss occurred, also sworn to.

And a number of other questions of minor importance relating to ownership and different kinds of stock.

#### **ILLEGITIMATE LOSSES.**

And yet, in spite of these precautions, we pay for a number of illegitimate losses in the course of each year.

A great many report stock killed by lightning that is found in such a state of decomposition that no one can tell whether it was killed by lightning or died from disease and we are often compelled to send the proof back for more explicit evidence or send an adjuster for personal investigation.

I remember in one case where notice of loss was sent to the company, proof blanks were sent the party, but he refused to make any sworn statement. On personal investigation I found that the animal killed was owned by son of assured who was of age but carried no insurance and I told the assured he had no claim as the insurance contract covered only his own property, so he withdrew his claim.

In another case, a report of loss was sent to the company. I investigated the claim and found that a straw stack undermined by cattle eating during the winter had toppled over onto a heifer, smothering her to death, and succeeded in having the claim withdrawn.

In another case a man reported a horse killed by lightning, standing in a stall in the barn. I investigated the same personally, found no evidence of lightning on the barn nor on any of the surroundings, so this claim was rejected.

Another case. A steer was reported killed by lightning in a wood pasture, which was also used for a hog pasture. On personal investigation I found that the animal had been eaten up by hogs and when found nothing but the bones remained to tell the story, and what kind of proof could be furnished in such a case, when immediate surroundings of the place where bones were found showed no evidence of lightning? Of course this claim was rejected.

And thus I could go on indefinitely, citing case after case where proofs were insufficient on which to base a legitimate claim.

#### ANOTHER DIFFICULTY.

Then there is another difficulty that sometimes confronts us. In our application and policy are three clauses, for horses, mules and colts, viz.:

On work horses, not exceeding \$..... on any one.  
On mules, not exceeding - \$..... on any one.  
On colts, not exceeding - - \$..... on any one.

A man places insurance on work horses only, has a colt killed, sends in a report of loss—colt was killed by lightning. We write back to him that he has no insurance on colts, and consequently no claim against the company. In the majority of cases he comes back to us rough-shod, says when the agent wrote him he understood the insurance would cover

colts also, and if the company refused to pay their legitimate (?) losses, he was done with them, and they should at once send him back his premium and cancel him out. But, on the other hand, if he loses a work horse he is very careful to call the attention of the company to the fact that while he has three colts, they were not insured and his insurance applies to work horses only and must be so computed.

The same applies to cattle. The assured in making out proof of loss sometimes claims that calves were or were not insured, as the case may be.

So the adjuster and executive board are quite frequently up against it; however, we try to do our duty and treat all our patrons alike, for every dollar paid out for illegitimate losses in a Mutual company is an unjust tax on all honest policy holders, and the adjuster, with the executive board, must act as a check to all such grafting and dishonesty.

## CHAPTER XIX.

### HAIL INSURANCE.

Insurance against the elements, hail, wind and electricity, differs from fire indemnity in the fact that no human agency is concerned in the causes of loss. Care cannot avoid disaster, nor does negligence invite harm, from hail or wind. There is and can be nothing corresponding to incendiарism or arson.

The coming of a destructive storm cannot be foretold. Weather prophets have attempted it from time immemorial but beyond the indications for a few hours in advance, their predictions have all proved failures and the theorists have followed each other, in unbroken procession, into the shades of oblivion, and the weatherwise of today will soon be forgotten, even as their predecessors were.

The available statistics have not furnished information of much value. Hail companies have kept careful records, they have mapped every storm reported to them, they have compiled the results, and have arrived at conclusions only to discover that circumstances may change at any time and this information, gathered at so much cost, may at once become useless.

**AN UNFOUNDED THEORY.**

For some years the theory prevailed that storm regions of the Mississippi valley and the plains were permanently located, that there were areas where there were frequent hail storms and others where they were unknown. Experienced hail insurance men have given up this idea. They cite instances of long exemption, in one case forty years, only to be followed by terrible destruction.

Different ratings are made for different states by some companies but it is doubtful if the regions in which the risks are not the same are bounded by state lines, and these boundaries are by no means permanent, but change with the seasons.

That the climate and the rainfall of vast tracts of land may become permanently modified is a theory often advanced but the weather records of many years past do not give it support. The storm regions of the country have been mapped. But how and why the storms within these areas take their courses is not known, nor is it possible to make any accurate predictions as to what the weather will be in any particular year or series of years.

Local hail companies have learned this lesson. They have discovered that they may operate smoothly and prosperously for three or four years and then matters may change and they may have as many years of disaster. To fit the rates to these conditions is one of the problems which has caused the hail companies much anxious thought.

**PECULIAR CONDITIONS.**

In fire insurance the hazard is continual. Advance premiums are not fully earned till the lapse of an entire year. Hence the necessity of a fund large enough not only to pay current losses and expenses but to re-insure all risks. With the hail company the hazard begins when the policy is taken out in the spring and closes when the crop should be harvested, anywhere from July 15, to October 15, according to the grain insured. The rest of the year there is no risk. For this reason most companies which insure for only one year settle up everything in the fall and hibernate till the next spring. If such companies would always levy assessments or collect cash sufficient to pay losses in the very worst years they would need no reserve. Those which do so and which have never been obliged to pro rate are by no means numerous.

The extreme variation of the seasons renders it impossible to avoid an occasional heavy assessment. Then there is dissatisfaction. Generally there are many who leave the assessments unpaid. Owners of farms can be reached, tenants with long leases are generally prompt in paying, but many of the migrating class change their location and leave their assessments unpaid. It is evident that much depends on the character of the community in which the company does business. If the members are mostly farm owners, and the few rented farms are looked after by their proprietors, there will be but little loss of assessments, and the method under discussion can be

safely adopted. In some states, however, the total assessment is limited and in these, there must be an occasional pro rating of losses.

Several companies doing business on this plan have reported to the committee. As to whether it is a success or not, they are about evenly divided. They all favor a reserve. How large this reserve should be is a question which would be answered according to the locality. Some companies have paid in full under a limit of  $3\frac{1}{2}$  per cent assessments, while others require from  $4\frac{1}{2}$  to 7.

Much also depends on the amount of risk accepted by the company. Some take all that is offered, while others will insure only 160 acres in a section, or \$1,000 in value. Usage varies with regard to the amount at risk per acre, some limiting risk to the cost of preparing the land and seeding, others insuring to full value of the crop.

Ordinarily, hail storms do not cover very large areas, but in some seasons the reverse is true. Then the conditions become somewhat like those of the fire companies which have conflagration risks. The abnormal losses cripple companies which carry no reserve. In 1904 a storm swept over six counties in Kansas, an area of over 5,000 square miles. Within this territory were strips devastated by hail utterly destroying the crops and these strips covered nearly the entire area. A single company gives its losses as in excess of \$160,000.

The state reports give forty-three Mutual hail insurance companies in Wisconsin, Iowa, the Dako-

tas, Nebraska, Kansas, Oklahoma and Colorado. Their methods of business vary so much that an accurate classification would require a separate class for each company.

#### **ANOTHER PLAN.**

There are some among these which assess annually after the losses of the season have been ascertained. They claim that this plan is successful and satisfactory. There still remains the vexed question how to pay losses in full and keep down the assessments. An examination of the reports shows that as long as assessments are sufficient to pay losses in full every thing goes smoothly but if the limit is reached and pro rating is resorted to, there is dissatisfaction and loss of business. As an illustration, the following report is given, round numbers being used for convenience. In 1901 a Hail Company had \$350,000 at risk, losses \$16,000, all paid with a small surplus. Next year the risks were \$500,000, losses and expenses \$36,000, of which only \$25,000 was paid. In 1903, the next year, the risks fell to \$370,000. The losses were paid in full and the next year the risks increased to \$934,000. The losses were again paid in full and a good surplus left.

Similar facts are shown by other reports, and the same state of affairs occurs among the fire Mutuals. A heavy assessment or a pro rating of losses will drive away business. If companies were allowed to accumulate a small reserve to be used in abnormal seasons, this difficulty would be obviated.

Such a reserve need not be very large. Nearly all companies conducted on the plan above described have had experience in bad seasons. They have a record of these years and a reserve sufficient to pay the extra losses for, say two years, would be sufficient. In the case of the company above quoted \$11,000 would have enabled the company to have paid its obligations in full. It is evident that if the good years can be made to pay for the bad ones the burden of assessments would not be heavy in any year.

#### **FROM MINNESOTA.**

The following letter from a Minnesota hail company director will be interesting as it is a statement of actual experience along the lines under discussion. He says:

“We organized our company with the idea of meeting our losses on the assessment plan the same as in the fire companies, but in 1902 we met with losses amounting to over \$140,000 and could pay only 70 per cent of the losses and this caused us the loss of many members, and again in 1903 we met with another disaster and paid only 35 per cent. The state law was such that we could pro rate and make full settlement, which we did and then reorganized on the note plan. Last year we wrote at 3 per cent or 15 cents per acre and limited the risks to 160 acres on a section and 3,200 acres in a township and fortune favored us so that we have a start on which we believe to be a safe plan. Had we done this when the company was organized we would have been able

to carry hail insurance in this state for an average cost of 3 per cent and yet have a small surplus in the treasury.”

This company is exceedingly cautious about bunching risks. It will not take more than one-fourth of the risk on any one square mile, nor more than one-sixth in any one township. This reduces the danger of loss from sweeping storms.

Another letter from an experienced hail man says:

“We began business in 1899 and the first years we were issuing policies on the five year term with the limited liability and then only calling for such an amount at the end of the year as was necessary to pay the losses that year. But for two years out of the five the losses exceeded the limit of liability and we were compelled to pro rate the losses. At our meeting in January, 1904, we readjusted the rate according to the hazard in the different parts of the state and we are now collecting a flat rate payable on June 15th or September 15. If the premium is paid June 15, it is one-half of one per cent less than if not paid until September 15, and we are now issuing the perpetual policy. We find after a year’s experience under this new plan that we are much better pleased with it. We have had a smaller per cent of cancellations than ever before and a better percentage of collections. It is a little harder to write business but when they once understand what they are to pay they are much better satisfied than under the assessment plan. Under this plan we were able

to pay our losses sixty days before they were due and at the end of the year we had over \$6,000 in cash reserve and over \$5,000 in premiums collectable.

“We try to educate our members thoroughly to understand just what their insurance is and we enclose you a copy of a personal letter we sent to all of our members.”

It should be noticed that the perpetual policies of the eastern and the western companies are not the same. In the eastern companies there is a large deposit. The western perpetual policy is one which is in force as long as the assessments are kept up.

In the personal letter above alluded to the statement is made that the payments for hail have averaged \$30 on the \$1,000 at risk since the company has been in existence. This is below the average.

#### **FROM IOWA.**

This letter is from Iowa.

“I think that the farther northwest, the more hail we get, but as to any one county being extra hazardous I do not think that it is. The more that you can get on a quarter section the better for the company, for you have more to assess on. Take all you can get on a section, as one section is no more liable to be hit than another.

“Grain blown down is not broken down, and grain hit by hail is broken about three to six inches from the head.

"I think you had better issue policies for five years. Premiums could be paid in advance where you have a limit to the assessment and where the assured agrees to take his share of what is left after the officers and expenses are paid, but if your policies are written so you have to pay in full then you will have to make assessment after the losses occur."

Another, a Minnesota company, the Park Region, has had the following experience.

"In reply we have to say that we have had ten years' experience in this business and so far as the Mutual plan upon a credit basis is concerned we have come to the conclusion that it is a failure.

"We collect \$2 membership fee at the time of taking the application, and limit the liability of the applicant to an assessment of not to exceed five per cent of the amount of his policy and which becomes due October 1, each year. Our policies are written for a term of from one to five years. The chief advantage of the five year business is found in the reduction of the expense of writing the business, as the cost is the same in writing one year business as it is in writing five. Of course there is a liberal percentage of the long term business cancelled long before the contract expires, either at the request of the assured or through his failure to pay his assessments.

"The latter we find to be the chief objection to the long term policy, as we are usually unable to collect more than 50 per cent of the premium after the first year, while the liability existing against us is always 100 per cent upon such policies in force.

“We have stated that in our opinion, the credit system of insurance is a failure. Our reasons for this are owing to the inability to collect assessments. They are among the hardest of collections. To ask a man to pay an insurance premium after a hazard has passed is a good deal like asking him to pay for a dead horse. In fact it is worse. Many of them imagine that because they have had no hail or damage, that they therefore have had no benefit and they feel under less obligations to pay such a debt than almost any other.

“At any rate, after exercising the greatest care of which we have been able in the selection of insurance, and using the greatest diligence in the effort to collect, we have been obliged to charge off as worthless, on an average, of not less than 25 per cent of our premiums—sometimes more and sometimes less. To this loss must be added the large expense incidental to effecting the collection we do make.

“Our rates of assessment have run from  $3\frac{1}{2}$  to 5 per cent, and while each year we have succeeded in the payment of our losses in full, yet there have been some seasons in which we have been obliged to borrow part of the money in order to do so, and there have been several seasons when the management (aside from the secretary) have received nothing for their services. We believe that a cash premium should be collected at the time of writing the insurance, and in case this premium produces an amount in excess of the needs of the business, this excess is rebated back to the policy holder. Such a

plan would largely reduce the expense of conducting the business and at the same time obviate a loss of at least 25 per cent of the premiums, which under our present plan and the plan of all Mutual companies of which we have knowledge, is now worthless. In the making of this saving the rate of premium and cost of insurance to the insured would be much reduced and the payment of losses could be made at a much earlier date and, we believe, would be much more satisfactory all around.

“We believe there should be different rates of premium upon different classes of crops and in different localities. There are some localities where hail of more or less severity seems to make its annual visit and cause more or less destruction, while in the same region, and only a short distance removed, other localities appear to be almost immune. Fruit, both small and large, and tobacco, are the most hazardous crops to insure. The rate on fruit should be twice that on ordinary crops. Oats, corn and flax are among the least hazardous. We attempt to distribute our risks over as large a territory as possible and aim to insure only 160 acres in a section. In practice we sometimes exceed this a trifle, it depending upon the locality.”

**FROM NEBRASKA.**

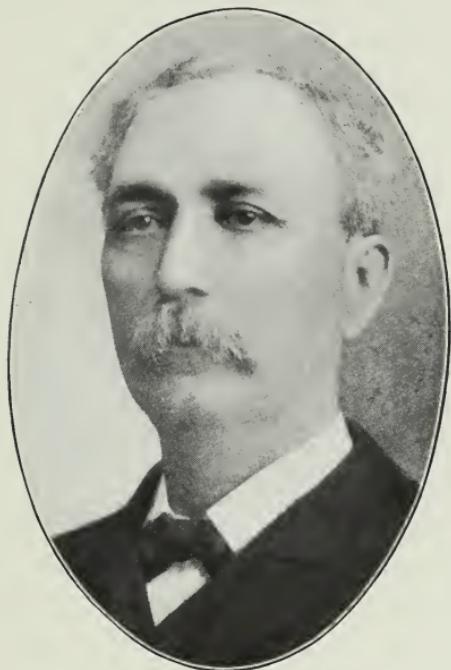
This is from Nebraska.

“It is quite true that different crops take different rates. Our experience has proven that there is not much difference in the risk on oats, corn and

wheat, though the risk on oats is possibly the smallest risk. But we do not think there is enough difference in these crops to warrant a difference in rates. It is possible that the risk on corn is less than on wheat. This is no doubt true, especially in Kansas, as your storms there occur as a rule earlier in the season and the wheat being farther along the risk would no doubt be greater than on the corn crop. The risk on barley, spelts and rye is just about twice as great as on any other crop. We believe that the rates should be twice as high. We have never made any difference here because there is so little of the above crops raised in this state.

“It is no doubt true there are small areas more subject to hail than other territories. Still, my experience in writing insurance in several different states has shown me localities where farmers have told me that they had lived in the same neighborhood for twenty or twenty-five years, without losing any crops to speak of, and then were hailed out as many as three years in succession. We find, however, that there are localities in this state that have proven more hazardous than others. For instance we believe that the territory adjoining rivers is more subject to hail than farther away.

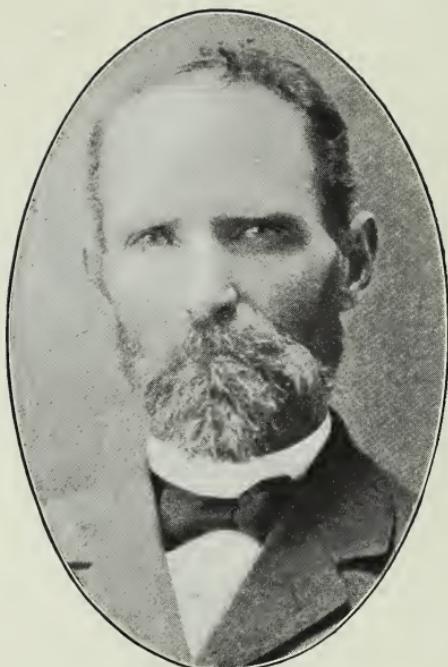
“We do not think any company could write all the insurance that is offered. We believe that 250 to 300 acres on a section is all the insurance that should be written; and do not think that too much should be placed on one acre of crop. Our plan is to insure for about what the expense of farming and



### **DR. JOSEPH SAUNDERS, ANDERSON, IND.**

Dr. Saunders was born at Troy, Ohio, June 1, 1849, grew up on the farm, moved to Madison county, Indiana, in 1871, and graduated at the Indiana Medical College, Indianapolis, in 1874. He has been in continuous practice since that date.

For the last twelve years he has succeeded himself as president of the Madison County Farmers' Mutual Insurance Company, which was organized in 1885, and is in a flourishing condition.



### **ROBERT A. KIRKMAN, ANDERSON, INDIANA.**

Robert A. Kirkman was born at Greensborough, N. C., Nov. 23, 1852. He emigrated with his parents to Missouri in 1858, and with them in 1873 located in California. For many years he was here interested in the business of fire insurance, having acted as agent for many of the best companies. After retiring from this business he purchased a farm in Madison county, Indiana, where he now resides. Mr. Kirkman at once identified himself with the "Farmers Mutual Insurance Company", of Madison county, and for three years was chosen as its treasurer, and for the past five years has been its secretary. He is an active member and worker in the ranks of the Mutual Insurance Companies Union of Indiana, and also of the National Association of Co-operative Mutual Insurance Companies of the United States.

rent of land would be worth. For instance, we insure at one rate, namely \$6 per acre. Of course the risk would be all right to insure at a lower rate. But our experience has proven that a great deal of dissatisfaction has been caused in neighborhoods where losses occurred and they were insured at different rates per acre.

"It is sometimes a little difficult to tell whether the grain has been blown over by the wind or knocked down by the hail. In most cases where hail accompanies wind you will find the straws shredded to a certain extent or broken more than when blown down by the wind. It is not often that the wind alone blows down crops so badly that a good portion of them do not rise again, at least in some part of the field. But when blown down by a twister it is then quite easy to tell whether it is done by the wind or the hail. Losses of this kind are hardest of all to adjust, especially where the farmers try to take advantage of the company.

"We believe that it is best to issue policies for a longer period than one year for this reason, the hail risk being so much greater than fire risk, business should be obtained at a smaller expense in order to have as much of the premiums to pay losses with as it is possible. It is therefore best to write business for a longer period in order to save commissions and other expenses. Provision can be made in the policy for change or transfer. The business could no doubt be conducted more satisfactorily if

premiums were paid at the beginning than at the end, before the losses occur. Then, of course, so much business could not be written by the companies because it is the time of the year when a great many farmers do not have ready money with which to pay Insurance. We make a slight difference in rates if premiums are paid before the season begins. We charge them  $\frac{1}{2}$  of 1 per cent more when they are paid in the fall; we also have provision in our by-laws that no member shall have a claim for loss against the company until his premium is paid. If it is not paid before the loss was reported, remittance must accompany his notice of loss. We find this plan works very satisfactorily, keeping a great many from reporting slight losses when the loss is nothing to speak of.”

**FROM COMMISSIONER DEARTH.**

Hon. Elmer H. Dearth, insurance commissioner of Minnesota, says in his report issued February 24, 1904:

“Those companies authorized to transact the business of hail and cyclone insurance upon the Mutual plan in the state of Minnesota have, in common with the preceding two years, had a sad experience during 1903—their losses being very excessive. While a majority of said companies paid their losses in full as adjusted, still there were three or four that were not so fortunate, on account of the failure on the part of a large percentage of the policy holders to promptly pay their assessments. One company could not even have paid 50 per cent of the losses as

adjusted, had the entire assessments been collected in full. The adjusted losses of this particular company exceeded \$100,000, while the proceeds of its assessment, which was levied for the full limit permitted under the statute, if fully collected, would not have exceeded \$53,000. This unusual experience is evidently due to the fact that its risks were not properly scattered or distributed, the losses amounting in one county alone to practically \$45,000.

“One other company—The German American Mutual Hail of Wadena—was unable to pay any percentage whatever, consequently, proceedings were duly instituted for the appointment of a receiver to wind up its business and financial affairs.

“As regards the matter of expenses during the past year, none of the companies appear to be subject to criticism; in other words, there has been no evidence of extravagance in this direction, practically all of the companies having kept within their one per cent limit, as provided under the statute. Practically all losses as sustained by the companies on account of cyclones and windstorms were paid in full, as adjusted.

“It is clearly evident, in view of the failure on the part of a large percentage of the members to pay their assessments, that the only practical method to be pursued in conducting this class of business is to require the payment of a full premium in cash or secure bankable notes upon delivery of the policies; in other words, no company should assume a dollar of liability, on account of losses through hail,

cyclones, or any other contingency, until the cash funds with which to pay the same have been actually collected from the member or policy holder. The system which has been universally followed in the past, namely: not requiring the members to pay even a single dollar until after all liability for losses has accrued, including management expenses, is responsible for practically all the financial ills and troubles of these companies. No enterprise, regardless of its character, could be successful if conducted on such an unbusinesslike basis. Experience proves that a very large percentage of the membership, or policy holders, in event of not sustaining any loss, refuse to pay their assessments when levied at the close of the year, consequently, if the losses have been excessive, in the absence of a substantial reserve fund, the companies are unable to promptly liquidate their liabilities, the alternative being settlement upon a pro rata basis, and then, in many cases, only for a small percentage of the total liabilities accrued. When the claims for losses become due, instead of having the funds in hand with which to pay the same, the same are in the pockets of hundreds or thousands of policy holders, scattered all over the country, many of whom refuse to let go of it, other than at the end of a law suit. Insurance companies certainly cannot pay losses, or other liabilities, until they have received the money from their policy holders, and the time to get it is upon delivery of the policy, or at time of securing application.

**THE MINNESOTA LAWS.**

The Minnesota statutes provide that:

“All companies organized under the provisions of this act shall charge and collect on their policies at the time of delivery thereof a full mutual premium in cash, or notes absolutely payable, at a rate which shall not be less, in the hail department, than two and one half per cent per annum of the face amount of the risk.

“Each policy holder, in addition to the premium paid or contracted to be paid, shall be liable to an assessment, to pay his proportional part of all losses and expenses sustained and incurred while a member of such company, not exceeding, however, in addition to the premium named in his policy and contract, a sum equal to such premium, provided such assessment, in addition to the premium heretofore paid or contracted to be paid, shall not exceed, in any one year, the sum of five per cent; provided, he is notified of such assessment within ninety (90) days after the expiration of his policy and if his policy is for not more than one (1) year, within ninety (90) days after the expiration of his annual insurance thereunder. The mailing of such notice to the last known address of the member shall be deemed sufficient notice of such assessment.

“The total amount of liability to which a member is liable shall be plainly, legibly and correctly stated both in the application, policy and note, if a note be given.”

The expenses of any hail company must not exceed one per cent on the total amount at risk.

The following address was delivered by John F. Zimmer, secretary of the United Mutual Hail Association at the state meeting of the Nebraska Mutuals. It covers the ground very thoroughly.

"Mutual hail insurance undertakes to do practically the same thing that any other form of Mutual insurance does, that is, to give to its members insurance at actual cost. And while it should be the fixed determination of all hail insurance organizations always to strive by legitimate means to make the current cost as little as possible, they should, however, never lose sight of the fact that insurance of any kind which is not secure is not worth paying for. But they should be certain to make it cost enough to keep it permanently secure against all unforeseen disasters and pitfalls. In 1897 the legislature of Nebraska passed a special act providing for the organization of Mutual hail insurance companies. This law provides that hail companies may write a limited liability policy, provided, that if losses for any one year should exceed the limit of all the liabilities of its members, as provided by its by-laws, then the sufferers must accept their pro rata share of all funds available in full satisfaction of their loss.

"During the course of time several hail insurance companies were organized. Some were organized with good intentions. Others, seeing that the legislators had forgotten to place any restriction on the officers having charge of the funds, were organized

for no other purpose than for personal gain. This kept up each year until 1903, when the legislature amended the laws, providing for a restriction on the officers in the form of a \$50,000 guarantee bond, running to the State of Nebraska. This law has had the desired effect and has put an end to the wild cat hail insurance business in Nebraska.

“But let us go back to the by-laws adopted by all the companies that were striving to do a legitimate business. The universal custom of farm fire companies to collect each year what was needed for losses for that year caused the hail companies to adopt similar plans, and as time went on this plan has practically proven a failure, and some of our companies who were striving to do a legitimate business have given up the struggle and quit business, so that out of some dozen organizations only five were in operation during the past season. The reason of the failure of so many companies was due to the fact that about every other year, or at least two years out of five, the losses would exceed the limit of their collectable premiums, and the losers for the bad years would have to accept their pro rata share of the funds realized for their losses.

#### **AN INJUSTICE.**

“The injustice of a limited liability and then collecting only such an amount as was necessary to pay the losses, in years when the losses were less than the limit, can readily be seen from the fact that those who lost their crops during the years that it

did not require the full amount were fortunate enough to get their losses paid in full, while those who lost during the years that the losses exceeded the limit were compelled to accept their pro rata share of the funds realized. Though they all paid alike for a five-year period, they were not all treated alike in the payment of losses. If, however, they had all paid the limit for the full five years and what was not needed in the years when the losses were less than the premium had been held as a surplus to meet the unforeseen disaster when the losses exceeded the premium collectable for that year, they could have had surplus enough on hand to pay all losses each year, and in that way treat all members alike, and all receive 100 per cent on the dollar for losses.

#### **AN EXPERIENCE.**

“The United Mutual Hail Insurance Association, of Lincoln, has during its six years of existence carried \$7,194,000 of risks, upon which it has paid \$214,994.70, an average of 3 percent on every dollar of risks carried, or \$30 for every \$1,000 of insurance carried. This association one year ago adopted the level premium basis and during the past season has been able to pay all losses in full, and set aside a surplus of over \$6,000 cash, besides having upwards of \$5,000 in collectable premiums, to meet future losses, providing the losses should exceed the total amount that could be collected in any year. This puts the association on what we believe to be a reasonably secure basis.

**MEAGER STATISTICS.**

“State reports give very little help in the way of statistics. Iowa reports the average cost of hail insurance as \$31.30 per \$1,000. This figure is obtained by adding up the average of the Iowa companies and dividing by thirteen, the number of the companies. This is the method generally employed. But Iowa had \$7,655,103 at risk in Mutual companies and the total losses were \$327,265.33. And this gives an average cost of \$42.75 per \$1,000. The highest cost per \$1,000 given in the report is \$59.47.

“Wisconsin reports but one company doing an exclusive hail business. Its average cost was \$37.63 per \$1,000. But this did not pay the losses in full and is, therefore, too low.

“Nebraska reports give an average cost of \$46.06 per \$1,000. Special reports give from \$30 to \$50 per \$1,000.

“Minnesota, in 1903, had \$8,364,942 at risk. The losses were \$278,090.64. This is \$33.35 on the \$1,000. The total assessments levied were for both hail and cyclone insurance \$448,386.42; amount collected \$283,951.27. The expenses for the hail insurance cannot be ascertained as they are not separated from the cyclone business except in the case of a few companies which did a hail business only. They average nearly one per cent or \$10 per \$1,000, which added to the \$33.35 would have made the cost approximately \$44 per \$1,000 had the losses been paid.

“It is evident that hail insurance is not yet on a scientific basis. Statistics are meager and unsatis-

factory. But some facts seem to be established. It may be stated that the hail risk will average over ten times as great as the ordinary fire risks. Different localities as well as different crops should take different rates. The bunching of risks, or failing properly to scatter them, is more dangerous to hail companies than is the conflagration risk to fire companies. Hence the necessity of larger territories in which to operate.

"There has been some progress toward weeding out irresponsible companies. Occasionally companies are organized entirely in the interest of the officers. They make the expenses what they please and they are by no means small. Minnesota limits the total expenses to one per cent of the total risks. Nebraska requires a bond of \$50,000 to the state. In the one case there is no chance for the grafters to steal, in the other they cannot give the bond. But in most states they can organize companies, pay themselves in full and pro rate the losses. This state of affairs needs remedying. In Kansas a law has been passed limiting the expenses of running the company to fifty per cent of the income. This is too large. The Minnesota one per cent of the risk is much better.

"Local conditions must govern in many respects, such as rates, time and manner of levying assessments, policies, etc., whether or not notes shall be used, etc. But there appears to be a steady drift towards long terms, greater cash payments and reasonable reserves.

"Of all the hail companies which have been started in the United States only about forty-three are reported as in business to-day. Some retired of their own accord, some were closed up by the state authorities. Of the total number there are but few which have not at some time been obliged to pro rata a loss. The companies now in existence are working toward a better basis. They will probably all survive.

The committee adds the criticism of some old officers of Hail Mutuals. One says:

#### **HOW TO WRITE BUSINESS.**

"I believe that the business should be written on a level rate and the rate could be arrived at from past experience in the different states showing the amount that has been necessary to collect each year to pay losses in full. Of course, even then the loss might be so heavy all over the territory that the company could not then pay in full, but it is more than likely with a level rate and creating a reserve fund that after the fund was established all companies would be making payment in full. I do not believe that the reserve fund can be too large as it is more than likely that within a five-year period at least, losses would be heavy enough so it would require part of the reserve fund to make payment for losses for some year during that period. Of course, if the reserve fund should get larger than a full year's premium on all the business in force by any company, and the board of directors felt it was getting

larger than necessary, a credit could be given on the next year's insurance on all policies remaining in force with the company. That would be an incentive for policy holders to retain their insurance with the company and would of course, have a tendency to strengthen the company in that way. I believe that business should be written for as long a period as possible in order to keep the expense at a minimum.

“Hail companies should not try to pay the same percentage for commission to their agents that the fire companies pay because the difference in the risks is so much greater.

“By writing the business on a five-year period or a continuous policy, all expense of getting business can be saved after the first year's insurance is written. I find that the greatest reason why policy holders have been cancelling their insurance after the first year has been on account of the assessment plan, for the reason that agents in soliciting the insurance naturally tell the prospective applicant that the assessment will be very low and that it will not cost him very much to carry the insurance. When assessment is made at the end of the season, after the applicant has not had a loss and he finds that the assessment is much greater than the agent led him to believe it would be, the applicant gets sore. For this reason a great many of them who are able to pay and would pay if the amount asked for was what they expected it to be, refuse to pay and then if collection is enforced they have their policies cancelled. A good way to avoid this dissatisfaction and loss in

membership is to have the time of payment set at that time of the year when losses are most likely to occur and they feel the need of insurance, and have the rate a trifle lower than the rate would be if payment were made in the fall. Have the policy show exactly what they are to pay either at that time or for the fall payment. I find that on this plan our company has a very small per centage of cancellations and a much smaller per centage of loss in collections than formerly under the assessment plan.

#### VALUATION OF CROPS.

“In the fourth paragraph we note what you say about the valuation of crop insured at the time of adjustment. I believe that market prices of products should not be considered at any time. The insurance should be written at a certain rate per acre and as the insured pays on that rate, adjustment should be made on that basis. Of course, provision should be made in the by-laws that not more than the actual amount of loss sustained should be paid at any time so in case of a poor crop being hailed out, the insured would not get more than the value of the crop.”

#### ANOTHER OPINION.

Another of wide experience says:

“In consideration of plans and methods of writing hail insurance, there is no general rule that applies to fire and wind storms that is applicable to hail insurance. There is no similarity of conditions

as regards hazards or liability. While there is no moral hazard in writing hail insurance, yet there is a moral hazard in the adjustment of losses, or in the determining of the valuation of said crops, and I might add that there is a physical hazard with a purely assessment company where assessments are to be made after the loss has occurred.

“The moral hazard as applied to buildings in fire insurance consists in part in the condition of the building and the overrating of the value thereof, while the moral hazard in the adjustment of hail losses consists in the over-estimating of the average value of the crops and as to conditions as to how the farming has been done, etc. This will be readily understood by those who have been adjusters in hail companies.

“The physical hazard might be determined to be the delinquent assessments which are always greater when the assessment is high, and this also is regulated by other conditions such as sale of farms and removing from one farm to another or from the state in which the assured has lived.

“There is another serious condition following this same class of insurance, altogether unavoidable but at the same time either increasing or decreasing the liability of the company. I refer to the valuation of the crops insured at the time of adjustment of losses, which varies according to the markets and the prices of such products. Not so with buildings, there can be no increase in valuation from the face of the policy, but often a decrease, which lessens

instead of increases the liability of the company in case of loss.

“Our experience so far leads us to the conclusion that this class of insurance is the most hazardous and intricate in its management, and, consequently, some methods should be adopted to eliminate at least the large delinquency attending the management of the business under the almost universal system as adopted and used by a majority of our hail companies.

“We further conclude that the popularity of hail insurance, notwithstanding the seeming necessity for such protection, will have to demonstrate by plans and methods which have not yet been introduced in a general way.

#### **AN UNFAIR METHOD.**

“The prevailing idea now seems to be a limited assessment. This is unfair, and in many respects altogether unsatisfactory, especially to those having losses in case of excessive storms, and with an unlimited assessment with severe storms making a higher assessment. This is also unsatisfactory to those having no losses, so there is at the present time, as we see it, no absolute relief from these contingencies over which we can have no control and upon which there has not been a general understanding. And as before stated, we believe in order to bring about the correct conclusions of the most satisfactory character, that an average basis rate payable in advance is the only correct theory upon which this knotty problem may or will be solved.”

## CHAPTER XX.

### WINDSTORMS, CYCLONES, ELECTRICITY.

Wind or air in motion takes different names, according to the speed with which it moves. The hurricane and the gale which occur on the sea-coast and on the ocean are similar to the cyclone and the wind-storm of the west. Both are strong enough to damage property. The windstorm acts by direct pressure and breaks off or overturns whatever is in its way. The cyclone moves in a circle in a direction opposite to the hands of a clock. It is a whirlwind, and the whole storm advances eastwardly sometimes at a speed as great as thirty miles an hour.

The cause of these storms is said to be the heating of the air in one area more than in another. The air in the heated area rises, cold air follows in to take its place, that is wind. Sometimes a stratum of cold air which is heavy, is forced over a stratum of lighter heated air. The latter forces its way up through the colder layer and then there is a whirl as there is when water runs through a hole in the bottom of a tank.

The force exhibited in some of these storms is terrific, and there has been much speculation as to its origin. When the difference in barometrical pressure is taken into account there will be no need of

calling in any other element. If there is a difference of barometrical height of one half inch between two areas each a hundred miles square, the total force developed will be many millions of tons, enough to account for the effects of any windstorm. The force of a cyclone can also be accounted for but no one understands how that force acts. A cyclone will destroy a well built house and leave a frail structure unharmed, it will demolish the walls of a house but leave undisturbed a kitchen table with a lamp standing on it, it will blow over strong trees but leave a pile of shingles between them. Thus far, no one has offered a satisfactory theory concerning these matters.

Electric forces usually act very powerfully during cyclones, and occasionally when a gale is blowing. As electricity of the same kind is strongly self repellent, there will be two forces, the one attacking objects from the outside, pushing over buildings, breaking off trees, etc., the other a repellent force from the inside, tending to split and rend. The interplay of these two forces produces results which are destructive and against which there seems to be no defense.

The damages done by gales or heavy winds are usually wide-spread but slight in each case. On the contrary, the cyclone follows a narrow path, and not unfrequently utterly destroys whatever it strikes. As one man who had lost a house and barn expressed it, there was not a board left which he could identify.

In all such cases the adjustment is simple, the loss is total, and the loser is always innocent so far as the destruction is concerned.

When the damages are caused by a strong gale, they are generally not heavy. Glass is broken, chimneys blown off, siding torn loose and perhaps the building is pushed off from the foundation. All these damages are easily repaired, and the best way to settle the loss, will be for the company to make the repairs itself.

Old shanties and dilapidated buildings should not be insured. They are very liable to loss, and their owners are not easy men to settle with.

What is electricity? No one knows. So far all the answers given only raise other questions, and no advance is made. For nearly two thousand five hundred years, the manifestations of this mysterious agent were studied with a total of results which could be recorded in less than ten pages of this Manual. Finally, Benjamin Franklin, by means of his famous kite experiment, demonstrated the fact that the electricity of the clouds, and static electricity as produced by the frictional machine then in use were identical. Stimulated by that discovery, the scientists began the study of the phenomena of thunder storms and soon arrived at a practical knowledge of great value.

Electricity exists as positive and negative. Without discussing the theories on the subject, it may be said that when these two forms or conditions are in equilibrium, no electrical action is apparent, but

when either predominates, there will be a tendency to restore the lost balance.

It is well known that electricity will be conveyed by some substances much more freely than by others, and also that it always takes the path of least resistance. When passing over a good conductor of sufficient size, the current travels quietly, but if the conductor is too small or is not a good one, heat is generated, and if the conductor is a very poor one, such as air, it jumps or discharges, and its path is marked by a flash of light usually called the electric spark. And lightning is only an enormous spark from cloud to cloud, or between the earth and a cloud.

Attraction exists between positive and negative electricity, but each is self repellent. Gases charged with electricity expand, solid bodies are sometimes torn into fragments.

Induction is the action of electric fluids upon each other in adjacent but separated bodies. Objects electrified alike repel each other and the electricity of the one influences the electricity of the other, and with objects electrified differently, the conditions are reversed. This induction takes place between the electricity of the earth and of the atmosphere, the former generally being negative and the latter positive.

#### HOW THE THUNDER CLOUDS ACT.

On a clear warm day, with an atmosphere containing a large amount of water, the air near the ground becomes heated, and consequently lighter than that immediately above it, and, as a matter of

course, it rises, carrying with it the positive electricity, which it contains, till it meets and mingles with a stratum of air cool enough to condense the moisture which it contains. A cloud now forms, the cumulus or thunder head, as it is usually called, and this cloud is separated from the earth and is positively electrified. As the process goes on, the warm air rising and giving up to the cloud its positive electricity, at the moment of condensation, there is an accumulation of vapor and of electrical force. The lower portion of the cloud remains positive, owing to the action of the earth, while the upper surface tends to become negative. Discharges take place between the two and finally from the cloud to the earth and occasionally from the earth to the cloud.

The repelling force of the electricity causes the cloud to spread out, the rain falls from the center carrying a downward rush of air while the warm air at the edges of the storm still continues to rise and supply electricity and vapor. Thus the cloud drifts along continually renewing itself, and also discharging its accumulated electricity as well as the rain upon the earth.

The course of the lightning is visible in the flash. It zigzags through the air and generally strikes the best conductor near by. In case there is a good conductor beneath the surface of the ground, water, moist earth, metal etc., the lightning will be apt to strike there. If a highly electrified cloud reaches over any point, any object on this point will become abnormally negative and in case of a discharge from

the other end of the cloud, the shock from the restoration of the equilibrium will be strong enough to produce fatal results upon persons or animals standing there.

#### TO AVOID DANGER.

To avoid danger from lightning some means must be found to conduct the discharge away, in other words, to provide a conductor which is better than the object to be protected. Such conductors are usually called lightning rods. These are usually made of iron or copper, the former is the cheaper, but copper is by far the better. If made of iron, the rod should not be less than three-fourths of an inch in diameter and an inch would be better. It should be welded into one solid piece and should be pointed at the top and kept sharp. Copper is much better, a half inch copper rod being preferable to the iron rod described above. But it must not be too small, as a heavy discharge might melt it and set the structure on fire besides leaving the building unprotected. Platinum points are best, only one on each rod should be used. In putting up the rods they should be firmly fastened to the building, and connections should be made with tin roofs, valleys, water pipes or other masses of metal about the building. The rod should, if possible, be near the chimney which is most in use. The lower end of the rod should run away from the house and into moist earth. Sometimes it may terminate in a well but never in a cistern. This is a matter which should be carefully

looked after, as a rod which does not lead to a good conductor below the surface is worse than none. It may be necessary to dig trenches or holes to be filled up with some conducting material in which to bury the lower end of the rod. If so they should be forty or fifty feet from the building. No sharp angles should be allowed. Lightning will not turn short corners. If the building is large, several rods should be used. It is stated that a rod will protect a circle whose radius is twice its height, but in case of many buildings, especially those with several chimneys, it will be safer to use more than this rule requires.

As to the form of the rod, a round one is as good as any. Excellent copper rods are now made as single rods or in strands like a cable. Properly put up, these should furnish absolute security.

Much attention should be paid to the point. It should be examined after every heavy shower and replaced if damaged. The reason for this is that electricity will run to or from a point when it will not to a surface, and the points should be kept in good order.

When a positive cloud passes over a strongly negatively electrified rod the fluid passes off from the rod without a flash if the rod is large enough to take it all. This is occasionally accompanied with a hissing sound which can be heard at a distance of several yards. In all such cases the spark is either prevented or greatly reduced in force and no damage results.

**TELEGRAPH AND TELEPHONE WIRES.**

Telephone and telegraph wires entering a building should be made safe. Lightning arresters can be had which will answer every purpose. A ground wire on a post on each side of the house is advisable. It should be sharp at the top and project a few inches above the post and be well imbedded in the ground at the bottom.

Fence wires should be grounded every five or six rods. Let the wire project an inch or two above the top of the post and be twisted around each of the fence wires so that a good contact is secured and then run into the ground three or four feet and there will be little damage from lightning.

To use language which is extremely unscientific, but which conveys the desired idea, electricity, as artificially produced, is used to transmit light, heat, sound and power.

In doing this, electricity is conveyed over wires or through the air. With wireless telegraph insurance men are not yet largely concerned. Telephones, telegraph and power wires are very common, and there are several dangers. They may be struck by lightning, one wire may fall across another, the insulation may wear out, or some one of many other things may happen and a fire ensue.

**INSULATION.**

Insulation must be complete. Out of door wires running from one pole to another are frequently bare. Such wires may break loose, one may fall

across another, a pole may break off and tangle up a large number of wires. If these wires, or any one of them, carry powerful currents, there will be damages unless such accidents have been carefully guarded against. Covered or insulated wires are used in buildings and in the streets of many towns and cities. The covering of these wires should consist of two parts, an insulating layer next the wire and a covering of hard material which will endure wear. Such wires should be put up so that they will not come in contact with anything which will rub against them, for example, the swaying limbs of trees. When they run into buildings they should be carried through the walls in insulating tubes of some waterproof material. Glass or porcelain is best, rubber is not accepted by many companies. The reason for these requirements is that in case of insulation becoming broken a new circuit is formed which is generally imperfect and at the point where the imperfection exists heat is developed. Two insulated or coated wires cross each other, they touch occasionally, finally a small hole is worn in the covering of each, they come in contact, a blaze ensues at once, and also a fire, if there is anything combustible at hand. The most common cause of trouble is water which is a good conductor. It soaks through coverings, destroying the insulation. If the tubes through which wires enter a building are not properly put in, they may become filled with water. They should slope upward from the outside. Wires near windows should be so placed that moisture condensing cannot reach them.

When speaking tubes are used, a thick insulation should be placed between them and the electric wires. A wire should not be allowed to carry more electricity than its normal load. Provision should be made for the discharge of any accidental overload.

The danger from contact with highly charged wires has been considered, as has the risk from lightning. There is another source of danger. When one wire carries electricity to several different machines, if one after another is shut off without a corresponding reduction of the force generated, the accumulation might be so great as to cause a fire. There are automatic contrivances for avoiding all these dangers and they are excellent if they only work. But just to put them in and leave them will not do. They must be inspected occasionally to make sure they are working.

No rules can be given which will last forever. New uses for electricity are discovered almost daily. But if care is exercised in putting in only approved constructions and common sense is used in inspecting them, and keeping them in order, the risks will be very small. But inexperienced persons should have electrical work inspected by some competent person before accepting it.

## CHAPTER XXI.

### INSURANCE FUNDS.

All insurance companies must have resources of some kind with which to pay their losses, and there are sharp discussions regarding the character and management of these resources. One side says that the true method is to collect for each fire policy in advance and on each life policy annually at the beginning of the policy year. But the safety of the insured requires that these payments should be held by the company till they are earned. Premiums do not become the property of the company the day they are paid in, but slowly as time passes by. Under these conditions there will be a large fund on hand in nearly every company. What is to be done with it? To let it lie idle would be both dangerous and wasteful. It must be invested, but in what? Stocks and bonds are usually selected. Real estate mortgages are taken by some companies. Government bonds are safe and so are most state bonds, but the amounts of such securities available are only a drop in the bucket compared with the sum needed and the companies invest in stocks and bonds. The concentration of such a mass of wealth in the hands of a few men united by the ties of a common interest, is dangerous. It is in the power of the Life Insurance

Companies of the United States to manipulate the stock market at their pleasure.

The dangers pictured are not imaginary they are real as is shown by the recent developments. There is another possibility, that sometime one of these great companies may not meet its obligations, may fail. The result would be a panic which few of the bonds and stocks would survive. Not that they are absolutely worthless, but their dividend power would be gone for many years, and the unfortunate patrons of the company which owned them would, in case of death, or loss, receive but a small percentage of their claim.

#### **THE MUTUAL SYSTEM DIFFERENT.**

On the other hand, the assessment system of the Mutuals, contemplates no such accumulation of money. The assessment life companies, on their feet at last, carry no funds. The A. O. U. W. the largest of all, paid out last year in benefits and death losses over ten millions of dollars and yet it carries scarcely any funds on hand. Its assessments are promptly paid and are only made as occasion requires. Joint stock companies paying that amount of losses have anywhere from fifty to a hundred millions of assets, most of it invested in stocks and bonds. The fact is that the enormous amounts of money to be invested by the insurance companies are a constant temptation to schemers. And where an insurance company invests a million or two in a trust company and loans it as much more, it looks as if some one was on the eve of yielding to that temptation.

In the cash Mutual as it is called, the premiums are collected in money and a dividend is made, returning from time to time to the policy holder the surplus which he has paid above the cost of carrying his risk. In both fire and life this plan cuts down very largely the great accumulations alluded to. But in both lines it is necessary to carry on hand the unearned premiums and a small reserve.

The other class of Mutuals, the assessment organizations, carry no large accumulations. In the life companies they carry nothing except a few dollars working balance, in the fire line, there are some policy holders who, for the sake of convenience, deposit with the company the full amount of the premium. Most companies assess once a year. Of course a portion of this fund must be on hand in all those which assess in advance, and adding to this a modest reserve the whole sum would be far below the accumulations of the joint stock companies. Then there is another consideration, all the Mutuals look to a limit of their reserve, a time when it shall reach a maximum, while the other companies expect to go on increasing indefinitely.

It is no wonder that one State Superintendent has proposed that all life insurance companies be compelled to transform themselves into Mutuals.

Were the Mutual system as generally adopted as it should be, more than two billions of dollars would be returned to policy holders of the country. This vast sum is now invested in stocks and bonds,

that is, it is practically loaned to the corporations and between these and the joint stock insurance companies there is, of course, the closest sympathy.

**MUTUAL SAVINGS TO POLICY HOLDERS IMMENSE.**

The savings of the Mutual fire insurance companies to their members are not on so grand a scale, yet State Superintendents and others talk about millions to-day and the sum is ever increasing.

There is still another consideration. The reserves of the Mutuals belong to the members and the interest helps to pay expenses, while accumulations of the joint stock companies belong to the stock holders and the interest goes to swell the dividends.

The reserves of the Mutuals, though small, yet have their place. They are generally loaned at low interest and on long time, on good farm mortgages. They add to the sum of loanable money, and thus have a tendency to lower interest rates. These reserves are never large enough to be considered in legislation. On the other hand the great army of policy holders in the old line institutions are interested in stocks and bonds, the value of their policies depending on them to a great extent. And that is one of the reasons why it is so difficult to regulate the large corporations. There are too many men interested in having things as they are.

**A TRUSTWORTHY AUTHORITY.**

In an interview with Paul Morton published in the Chicago Record-Herald November 1, 1905, he is quoted as follows:

Asked how he liked the insurance business, Mr. Morton declared that it was fine, because it included so much railroad business.

"I am still in the railroad business," he said, laughing. "You see the Equitable has \$175,000,000 worth of railroad securities. We hold \$8,000,000 worth of Santa Fe securities, are interested heavily in the Northwestern, own securities of the Union Pacific and of several others of the big railway systems. Handling these securities keeps my hand in the railroad business."

This is quoted not to reflect on Mr. Morton, but to give authority for our figures.

## CHAPTER XXII

### NEW ENGLAND FACTORY MUTUALS.

(For the data from which this chapter is written, the committee are indebted to the Hon. Edward Atkinson, president of the Boston Manufacturers Mutual Fire Insurance Company. He has been in the service of that Company since 1865. His pamphlet, "The Prevention of Loss by Fire," and the report of the company for 1904 are not exceeded in value by any other insurance document. It would be a good investment for the Mutual fire insurance companies of this country to put a copy of that pamphlet into the hands of every official and every policy holder in the United States.)

The system of factory Mutual insurance was established by Zachariah Allen, of Providence, Rhode Island, when he and his associates organized the Providence Manufacturers Mutual Fire Insurance Company. This system is unique. It is the only known instance of coupling the prime motive of prevention of loss by fire with payment of indemnity in money for such losses as cannot be avoided. This is ideal mutualism, not only to share one another's burdens but also to unite all efforts to make both the burden and the contribution as light as possible. While other Mutuals are following along the same line, they are still afar off. The indemnity feature is still in the foreground, while the saving of fire waste is merely an incidental.

#### A GENERAL RULE.

In this pamphlet, Mr. Atkinson develops the following rule: "After the insurance company has done its duty by careful selection of risks and thorough inspection, all that it can do is to pay indemnity for loss which, if large, is in nine cases out of

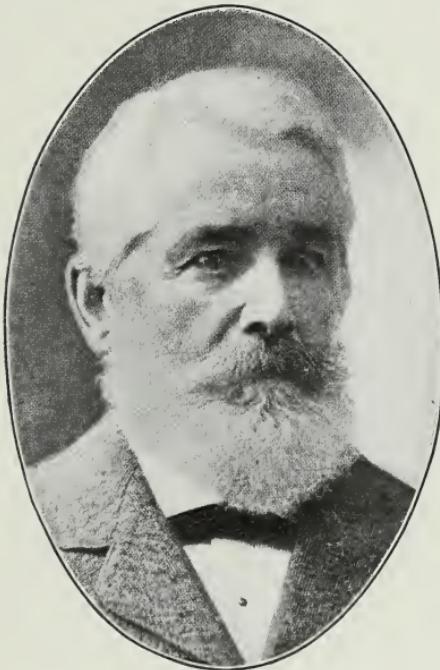
ten due either to the lack of apparatus for preventing such loss, or to lack of care and order in the conduct of the work. The only persons who can prevent loss by fire are the owners or occupants of the insured premises. Upon them rests the responsibility for heavy loss, if any occurs, in nearly every fire."

It has always been the practice of the Mutual companies to instruct occupants and owners upon their duties to their own property and to keep them up to the mark by constant supervision and by refusing contracts of indemnity to those who neglect their own duty. To demonstrate, the identity of interest between the underwriter and the owner was not always an easy task.

The Mutuals were successful from the start. They furnished indemnity during the first decade, 1850-1859, at 34.42 cents per \$100 of risk. During the next decade, 1860-1869, the cost per \$100 was reduced to 30.92 cents; from 1870-1879 the cost was 26 cents. In 1878 Mr. Atkinson was elected president and devoted his whole time to the perfection of the plan upon which the Mutuals were organized.

Before 1878 no regular meetings of the directors had been held. Inspections had been made by the presidents or secretaries about once a year, usually a few weeks before the expiration of the policy. Modern safeguards had not been investigated. There were no experience tables, no classifications of risks, and no real comprehension of the relative hazard on different risks; everything depended upon the extraordinary memories of Messrs. Manton and Whiting. It had become evident to Mr. Atkinson and other directors that a very complete change must be made in the conduct of the whole system, and that new safeguards must be found in order to meet the increasing hazard of larger floor areas, mills of many stories in height, higher speed, new dye stuffs, and to anticipate the new hazard of mineral oil, then being gradually introduced as a lubricant, of electricity, etc., etc.

In 1878, the president began the elimination of poor risks, and in the ensuing two years a large amount was cancelled. Its



### **EDWARD ATKINSON.**

Mr. Atkinson was a noted economist who always wrote and acted from a philanthropic standpoint.

He was a leader among the Mutual Insurance men of New England, and his advice and opinions were often called for from other sections.

His death removes a man to whom the whole country is greatly indebted.



### **J. SOMERS SMITH, JR., PHILADELPHIA.**

Mr. Smith is secretary of the Philadelphia Contributionship for the insurance of houses from loss by fire. He has been secretary and treasurer for the past twelve years, was a clerk in the office for seven years preceding. He succeeded his father who was secretary and treasurer for thirty-five years or from 1859, and who succeeded his father, grandfather, who served seventeen years or from 1842. One clerk is serving his thirty-ninth year. Mr. Thomas E. Moorhead, assistant secretary for several years, was with this company fifty years, and Caleb Carnalt forty-two years.

place was soon supplied by safer hazards. Measures were taken to establish a quarterly inspection.

In 1880, the science of preventing loss by fire was fairly entered on. Mr. Atkinson had become convinced that unless the hazard of larger and larger factories, higher speed, etc. could be met, the Mutual system would break down. He insisted that automatic sprinklers be made a condition. It took years to enforce it. As an illustration of the pertinacity with which the improvement was resisted, Mr. Atkinson says that a "possibly useful and somewhat personal suggestion was made to myself by a member who had become a little irritated through my persistent nagging for sprinkler protection. He remarked that 'when I passed on to some other life I had better take a sprinkler with me for my own protection.' "

#### REDUCING FIRE WASTE.

In 1879 a careful compilation was begun by which the combined experience of all the companies could be registered from year to year. This afforded much valuable information. The whole energy of the companies was turned in the direction of reducing fire waste and with such success that the cost of insurance per \$100 at risk during the decade 1880-1889 fell to 22.62 cents.

The work continued, new method of protection was introduced, roof hydrants were constructed, new buildings carefully inspected and dangers guarded against. As all mills are provided with power which can be used in case of fire, close proximity, instead of increasing the risk, really diminished it, owing to the assistance which mills could render each other by furnishing a deluge of water in case of fire. If these plans were adopted in other lines the conflagration hazard in large cities could be well nigh eliminated.

The records of fires had been tabulated and the causes were examined. Among the first disclosures was the large number of fires and the large amount of losses from broken lanterns. This

led to an examination and not a single safe lantern was found in mill use. A new manufacturing firm was called on and a new, safe and cheap lantern invented, but it took five years to perfect it.

Spontaneous combustion had caused serious losses. Mineral oils were substituted for animal oils or mixed with them and the loss from this cause was much reduced.

At this time several fires occurred in roofs which were so constructed that there was a hollow place at the eaves. At length a partly burned roof revealed the secret. The rats had carried oily waste to the vacant space to build their nests and spontaneous combustion had ensued. The style of roof was changed, the eaves were left open and fires from that cause ceased.

Hot bearings made trouble. The oils were examined and found unsatisfactory, with one exception. The dangerous oils were condemned. This led to the threat of suit for damages from the manufacturers but there was no backing down. The manufacturers changed their methods of distillation, better and cheaper oils were made and fire loss from that source was greatly reduced, as well as the expense of running the machinery.

Varnished surfaces, fire proof paints etc. received attention and with good results.

#### **A GOOD STORY.**

Sawdust, greasy rags, etc. were condemned as extremely hazardous. Mr. Atkinson tells the following good story upon himself.

"I have myself been subject to one alarm from fire in a shed attached to my own house. The watchman on the street five hundred feet away smelled smoke, passed over two or three estates of my neighbors and finally traced the smoke to a barrel containing rubbish in the shed of my own house. It was but a short distance to the fire alarm, which he sounded, bringing the chemical fire engine. I was awakened by the noise of the firemen

putting out the fire, which in the interval had suddenly burst out with considerable virulence in the shed in which my tank of kerosene oil was kept. The origin of the fire was traced to a greasy ham bag in the bottom of a barrel, over which a lot of excelsior and other rubbish which had been used as a packing in the barrel had been thrown back. Great care had been taken by myself in regard to the ash barrels and receptacle for rubbish. All in the cellar were of metal, but, in this exceptional case, the barrel from which goods had been unpacked had been temporarily put in the shed, with this greasy ham rag at the bottom. Carrying a policy of insurance on my library in order to make me a member of the company of which I am president, I was obliged to report this fire in the monthly report, to which I added that "this member had been warned by the president that if he permitted combustible material to be put away in wooden barrels, his policy would be immediately cancelled."

And so the work went on. Every fire was thoroughly investigated and all materials examined. Experts were employed in all lines and the expense to the insured is steadily decreasing. The cost per \$100 at risk from 1890 to 1899 was 15.64 cents and for the five years following only 7.85 cents.

The companies now own a laboratory in which all new inventions are tested and their merits reported. The great value of the service of this laboratory in preventing large conflagrations can hardly be estimated. That danger still exists in many cities and when a conflagration does come there is danger that it will bankrupt companies which have large lines in such cities. The only method of preventing such destructive fires is to proceed along the lines already followed by these companies.

The pamphlet utters some timely warning concerning the condition of public buildings. School houses, hospitals, theaters, etc. are often veritable fire traps. The United States burns 11.36 churches per week, which induces Mr. Atkinson to say that by combination for Mutual insurance the church members might be assured against cremation in this world if not in the next.

These companies have what they call "Missionary Literature," consisting of plans for constructing buildings, lists of

approved fire apparatus, etc. This embodies the result of careful and long continued observation as well as of actual experiment and test. It has proved of great service.

It is hoped that this brief review of a most valuable pamphlet will set Mutual insurance men to thinking and to renewed efforts toward reducing the fearful fire waste of the country.

### **ADDRESS AT ATLANTA.**

The following is a paper by Mr. Atkinson, printed in the proceedings of the Tenth Annual Convention of the National Association of Manufacturers, at Atlanta, Georgia, in May, 1905. It shows what can be done in reducing fire waste, and if so much can be accomplished in the factory lines, where risks have been considered excessive, what may be expected in other lines if proper efforts are put forth. The paper follows:

“I have been honored by your executive committee with the request that I would attend your convention and give you an address on methods of reducing the cost of fire insurance. I regret that advancing age makes it indiscreet for me to undertake long journeys by rail, and I am therefore obliged to communicate with you through your secretary, and will submit to you the conclusions to which I have been led in the course of forty years’ practice, first as director, and for twenty-six years as the administrator of the largest of the Factory Mutual Fire Insurance Companies of New England.

“My conclusions may be justified by the fact that during the twelve months ending April 30, the company of which I am president has insured factories and workshops against loss by fire and loss from the breakage or leakage of sprinklers to the value of two hundred and six million dollars, with a total loss by fire and water in twelve months of less than thirty-four thousand dollars paid on more than three hundred and forty claims for single losses. That is the rate of one cent and sixty-five hundredths upon each hundred dollars insured twelve months, of which during the last extremely cold and fluctuating winter the losses by the leakage of sprinklers account sub-

stantially for forty hundredths of a cent, leaving the loss by fire one cent and a quarter per hundred dollars of property insured.

“The companies associated with ours, not in administration but in the executive work of inspection, making plans, laying out pump, hydrant and sprinkler service, and other similar services rendered to our members, have with this company carried for the twelve months past insurance on property to the value of about fourteen hundred million dollars with almost identical and corresponding results, varying but a trifle from our own, on some cases even a little better.

“This insured property, in my own and in the most conservative of the older companies, consists of certain classes of textile factories, paper mills, machine shops with some wood working, metal working, dye works, printeries and bleacheries, and a small miscellaneous class in which the fire hazard is of like kind to that with which we have become familiar in dealing with our principal classes. There are many risks of as good quality in other classes, but we do not expand for the reason that our members are not seeking profit. They appoint the officers as their agents to save them from loss, and as the amount and diversity of the work is about all that the executive officers and inspectors can suitably cover and control, we refuse all outside hazards that are not of an analogous kind, no matter how safe they may have been or might be made. We have nothing to sell. Our expenses are very small, less than four cents on a hundred dollars insured, and fully half of that is expended in the service of engineers and experts, making inspections, layouts and plans, and in executing plans which are of the greatest service to our members, irrespective of the contract of insurance.

“It is a great satisfaction to add as a matter of personal experience that while in the period antecedent to my becoming the administrator and executive officer of the company, there had been many lives lost in calamitous fires, in the twenty-six years of my own administration not one single life has been lost by fire in any risk that has come under my supervision.

**A LOW COST.**

“The losses by fire in the senior Mutual companies for the past ten years have averaged less than six cents a year per hundred dollars, or less than sixty cents for the whole period of ten years. Their expenses are less than four cents a year. Now, when it is remarked that the losses outside our range are sixty cents a year and expenses, which cannot be readily diminished, are nearly forty cents a year, it is not to be wondered at that many of your members are eager to secure the benefit of this very low cost.

“How, then can you do it? There is but one way. The owner, builder and occupant of property are the only persons that can prevent loss by fire on their premises. All that the factory Mutual underwriters can do is to give owners and agents information and instruction how to prevent loss, and all that the Mutual companies or the stock companies can do in case of loss is to pay a certain sum of money for indemnity so far as money may compensate for the loss. The executive officers of the factory Mutual companies have only been primary school masters, teaching the alphabet of construction, protection and prevention. Had not the pupils been apt and ready to comprehend their own interest in the matter, the work of the saving which I have disclosed to you could never have been accomplished. It, therefore, rests with you, the members of this association, to reduce the cost of insurance on your property, and you only can do it.

“If you undertake to organize a Mutual, even in risks that are qualified to become Mutual risks, merely for the purpose of getting the lower rate of premium, you will utterly fail. There is no virtue in the name of Mutual. All underwriting is Mutual. You contribute a premium to the funds of a stock insurance company and your losses and expenses are paid out of your own premiums. The capital is nothing but a guarantee, if the capital is impaired by losses and expenses, it must either be made up by the stock holders or the company will be enjoined and put into bankruptcy. And precisely, the same way, the sum depos-

ited with the Mutual companies under the name of premium is the only source from which losses and expenses are paid.

“What, then, is the first condition precedent to reducing the premiums on fire insurance which are not yet high enough? It is this: Let every man answer to himself, ‘Is my building constructed as safely as I would construct it were I to insure it myself? Is it protected with apparatus such as I would put in if I were insuring it myself? Is it kept as clean, as free of hazard in occupancy? Is it watched and inspected as it would be by any one of common sense who insured himself?’

“Now, unless each one of you representing a large factory or workshop, can answer these questions ‘Yes’, you are not yet qualified to become members of a safe Mutual company. That is a very extreme statement of a fact subject to very slight variation. There are mills and workshops on which the construction is not quite up to the standard, but in safe guards and in occupancy these risks are up to the present standard. Moreover, a risk slightly defective in construction, owned and operated by a man whose whole fortune is in it, who lives near it or in it, and is about it all the time, is in some measure a better risk than a large factory building belonging to a distant corporation supervised by an agent who has not that personal interest in it to compel him to exercise the utmost care.

#### DO NOT EXPECT PROFIT.

“I, therefore, counsel you not to expect gain, and I counsel you to go slowly in any effort to organize Mutual insurance companies to cover works that are not now qualified to be insured in the junior Mutuals which are extending their services over risks that the seniors would not take, and I caution you against any effort to establish a Mutual system over risks that are in the congested districts of cities or that are in any considerable measure subject to what is known as the conflagration hazard.

“Yet, there is an immense field open to you all, by occupying which you may greatly reduce the cost of your insurance

and induce the underwriters to grant you lower charges of premiums in recognition of your own duty fulfilled to your own property.

“Without any effort to make exact analyses of the losses by fire in the United States, which now average one hundred and fifty million dollars a year, with an occasional increase from a conflagration, I am satisfied that more than half this loss occurs in large establishments, either for the manufacture or sale of products, in which losses range from fifty thousand to a million dollars each. I think that less than half the cost of the annual ash heap occurs in the much greater number of small claims. That fact brings the responsibility for this loss more upon the members of this association than upon any other single body of men in the United States.

“Now, when you add to the average loss of one hundred and fifty million dollars, the cost of sustaining insurance companies, the excessive cost of water supplies due to the unfit construction and protection of city buildings, and the excessive cost of fire departments due to the same causes, you reach a sum, the cost of fire to the people of this country, annually, of two hundred and fifty to three hundred million dollars, which is equal to ten per cent to fifteen per cent of the annual profit or saving of the nation that is possible in any normal year. In other words, if the annual product of this country is two hundred and twenty-five dollars per head of the population, at which I compute it, reaching the sum of a fraction under nineteen thousand million dollars, or what is commonly called nineteen billions, a larger estimate of the value of our annual product than has ever been put forward by any other economist or statistician, we may set aside, as the profit or increase of capital ten per cent of this sum, or nine hundred million dollars a year saved for the addition to or maintainance of the capital of the nation, ninety per cent being consumed in the process of production. In that event the ash heap and the other expenses or cost of fires comes to fifteen per cent of the normal profit of the whole nation, and a very large part of that occurs in risks for which the members of this association are responsible.

**WHAT WILL YOU DO?**

“What are you going to do about it? Limit yourselves to charging the managers of the stock fire insurance companies with extortion, when for the past ten years or more there has been no profit in fire insurance? On the contrary, a heavy loss, made up only by the banking department of these companies. All the dividends that they have made and their whole existence have depended on the income from the investment of their capital, their surplus and their annual premiums. In this way they have been enabled to continue to insure your risks and others at a loss.

“Again, I ask you will you limit yourselves to denouncing the managers of insurance companies, without knowledge of the facts, or with only a limited knowledge of the limited part of each of your own occupations; or will you endeavor to reduce the cost of insurance by attending to your own duties, to your own property, and by removing the outrageous causes of loss which you tolerate because you have been trusting to a policy of insurance for your protection and neglecting in a vast number of cases to protect yourselves?

“I know there are conspicuous exceptions even among those who are not yet insured under Mutual principle and subject to the inspections of the Mutual underwriters. I know that here and there is a large establishment which is as thoroughly guarded and as well inspected as any factory Mutual risk; but how many such are there? Do they number one in a hundred in proportion to the risks that are written in the factory Mutuals? I think not. I should be very glad to have it proved that I am in error.

“What then would you do about it, if I told you that it is not yet safe for you to attempt to organize a general Mutual system for the general protection of your factories and workshops? You can do the one thing that lies at the foundation of the Mutual system: Establish a well-organized and complete system of monthly or quarterly inspections, to be made by trained inspectors, reporting to yourselves in order that you

may immediately remove the causes of hazard which you now tolerate simply from ignorance; and then supplement that inspection by experts by establishing blanks and putting in force a system of self-inspection of your own premises, as more than one-half the factory Mutual members now conduct that work, rapidly increasing in number until all will establish that practice. You may do this by agreement of the owners of insured property in a single block of a city, in a single ward, in a whole city, a whole county, or a whole state, or you may organize a system in your national association under the supervision of your officers, by which you may slowly but surely establish a quarterly inspection of every establishment belonging to every member in the United States.

"I know not how many you number; I suppose there may be five thousand separate risks represented by your members. What of that? There are more than three thousand separate risks or buildings standing on the premises of the thousand members (a few more or less) whose property is insured in the senior Mutual companies, with a considerable number of the junior risks added—a total valuation to-day of about fourteen hundred million dollars, and that great line of risks, covering a wide area as far as the Mississippi river into Alabama, is inspected three times a year on our behalf, with frequent special inspections, on request, by experts under our supervision, and the cost of the service is assessed at one hundred and thirty-three dollars per million on the amount of risks outstanding December 31, 1904, making the sum appropriated for the service of the present year \$170,792.95. Out of this sum will be defrayed the salaries of all men employed in the bureau of inspections, in outside and inside service. It will cover the cost of all plans (the best insurance ever made of which I send you an example), each edition being printed in sufficient numbers to supply all the insurance companies, the owners and the agents with such copies as they may require; and the sum will cover all the engineering service, civil, hydraulic, electrical and chemical, which we render to our members on request.

"Now, if by this system, mainly of inspection and of instruction following inspections, we have been enabled to reduce the losses by fire for ten years to an average of six cents per hundred dollars and for the last year to an average of less than two cents per hundred dollars, what will you do about it? How much will you reduce the waste of fire in your own factories and workshops during the next five years by doing likewise? How much will you save yourselves in the interruption of your business, often the worse loss that ensues after a fire? By the way, we not only give you our policies for indemnity against the actual loss by fire, but we also issue policies under the name of 'use and occupancy,' insuring the fixed charges during the period in which works may be stopped for repairs, and we insure against the leakage of sprinklers—all that is within the six cents and the two cents a year."

Mr. Atkinson's public life has been very largely devoted to discovering and teaching methods of reducing or avoiding expenses. His forty years' record as an insurance officer is practically summed up in the essays given in the preceding pages.

In addition to this he has made several valuable inventions which he has dedicated to the public, in no case taking out a patent. Such a life gives a man authority; he has a right to call on people to listen.

#### A GOOD SUGGESTION.

It is suggested that the Mutuals in other lines take up this same work, the reduction of expenses, and do something to reduce the fire waste, which is such an intolerable burden upon the industries of the country. A system of inspection might be organized, extending all over the country, not necessarily on the same plan as that of the factory Mutuals, but still efficient.

No honest man desires that his home or stock shall burn. He is willing to do what he can to increase the safety of his property, the same is true of the owners of shops and factories, of the lodges, churches or other bodies which own property, and of the public also. As Mr. Atkinson rather more than

hints, there are two necessary preliminaries, to interest the insured in the matter and to educate him up to the proper standard. While it would seem that every man should be interested in measures designated to add to the safety of his property, it is a fact that it is a difficult task to overcome prejudices and to awaken people from apathy.

Every one who has served as inspector for the fire department of a city will bear witness to the fact that while he was on his rounds trying to show people how to keep their property from burning, doors have often been shut in his face and when he persisted in performing the duties allotted to him, he was made the recipient of abundant profanity. And when dangerous constructions, or hazardous defects have been discovered, he knows how difficult it was to have them remedied. Time and perseverance will generally overcome this trouble, and when owners of property become satisfied that they are really benefited by the inspections, they will fall in and help.

Having accomplished this, there remains the task of inducing the Mutual policy holders to consider themselves as active members instead of sleeping partners. It requires intelligence, integrity and public spirit to be a useful member of a co-operative body, and this truth is not by any means appreciated as it should be.

The time will come when Mutuals will join in a system of inspection which will reduce fire losses to a minimum, a time when the fire waste shall be but the smallest part of the expenses of Mutuals, the heaviest outlay being for fire prevention, while the total cost of the policy holder will be far below what it is to-day.

Mr. Atkinson has opened up a new line and to him not only the Mutuals but the whole country should return their hearty thanks.

(Since the foregoing was written, Mr. Atkinson has passed away. He died December 11, 1905, at a very advanced age. His whole life was but a long series of services to humanity. His name will ever be a household word among the Mutuals of the country.)

## CHAPTER XXIII.

### THE PHILADELPHIA CONTRIBUTION-SHIP.

(The history of the first hundred years of the life of this organization is condensed from the address of Horace Binney at the Centennial meeting in 1852.)

At the beginning of the year 1752 not an inhabitant of Philadelphia possessed a single dollar of indemnity against the loss of his dwelling by fire. On the 18th of February 1752 a notice appeared in the Pennsylvania Gazette inviting subscriptions generally. The charter, or as it was then called, the deed of settlement, had already been drawn up and the notice read as follows: "All persons inclined to subscribe to the articles of insurance of houses from fire, in and near the city, are desired to appear at the court house, where attendance will be given to take in their subscriptions every seventh day of the week, in the afternoon, until the 13th of April next, being the day appointed by the said articles for electing twelve directors and a treasurer." Accordingly, on the 13th of April 1752 the subscribers convened at the court house and elected the directors and treasurer for the current year.

The members were called contributors. The first name subscribed was that of James Hamilton, the lieutenant governor of the Province under the Proprietaries. The first name of a private citizen is that of Benjamin Franklin, who was also at the head of the directors chosen, at the first election. John Smith was the first treasurer and also the first person to insure. He took out two policies. The directors met monthly, absentees were fined two shillings; tardy ones, half that sum. The funds thus raised by fines were expended first in placing milestones

along the road from Philadelphia to Trenton and later from Philadelphia southward toward New Castle, Delaware. These were the first milestones in that portion of the country.

The company did not incorporate at the beginning, in fact, not till 1768, but at their first meeting after the first election, the directors adopted a seal, the four clasped hands. This device was also placed upon buildings insured by the company. Hence came the common synonym for the company the "Hand in Hand." Through this title was not mentioned in the deed of settlement, in the policies nor in the minute books, the thought of the name seems to have been in the minds of the directors, and the device was a very appropriate symbol of the Mutual sentiment which prompted the organization of the society. It is still the seal of the corporation.

#### **EARLY METHODS.**

Of the policy of the company, Mr. Binney says:

"The policy of insurance was for seven years. The premium was neither a rate payable annually, nor for the entire term of seven years, but was the deposit of a sum, the use or interest of which during the policy belonged to the company and so it continues to this day.

"The risk of all fires was assumed without any exception of public enemies, military or usurped power, rebellion, civil commotion or riot; and so it continues.

"The property insured was protected during the term against any number of losses not total, without reducing the amount insured on the premises, or impairing the deposit. In case of destruction from the first floor upwards at any time, the company had an option to pay the whole insurance and so end the policy; or to rebuild, the policy continuing in force; and how often soever the destruction of fire, and the rebuilding might take place during the term the policy continued in force. And so it continues.

"The payment of the deposit, the acceptance of the policy,

and the signature of the deed of settlement, made the assured a member of the company, and a party to all the articles in the deed. And so it is to this day, the signature of the deed being sometimes neglected, as the acts are of equal efficacy.

“The personal liability of the members for losses, beyond their own deposits, was half as much more, in case a single fire, beginning in one house and damaging one or more houses, should sweep away all the funds of the company.

“The concern was managed for the profit and loss of the members, interest being allowed to them on their deposits, in proportion to the whole amount received by the company, and a proportion of the losses and expenses charged to them, and the balance settled at the expiration of the policy.

“Executors, administrators, and assigns were included as members, there being a provision for notice of transfer and assignment within a limited time, and the approbation of the directors. It is so this day.

#### MODIFICATIONS.

“The modifications since made of some of these principles are these:

“The policy is now perpetual, with liberty to determine it on either side, on certain terms.

“The feature of personal liability in any event beyond the deposit money is obliterated.

“The profit and loss principle was expunged at an early day; and it will interest you to learn the effect of this principle while it operated, and the development of business that instantly followed the resolution of the company abolishing it.

“While the principle was in force, the company was in effect a dividend-paying company, the dividend being apportioned and paid periodically and there being no capital nor security for losses beyond the actual deposits and the interest not divided, except the guaranty in one event of a further payment of fifty per cent of each member’s deposit. It was a cardinal defect in the scheme. Under such a principle I do not see how the company could have become extensively useful.

"The effect of it in the first ten years of the company was this: The amount of their policies at the end of the first year, namely 25th of March, 1753, was \$108,360; and the amount of their deposits \$1,261.93. At the expiration of ten years, namely, in March, 1763, the sum insured for that year was \$67,773; and the deposits \$982.25. There was a falling off of nearly two-fifths at the end of ten years. Many did not renew their policies at the end of the term. The minutes show the fact and the efforts of the directors to counteract it. New business did not come in. Reflecting men must have seen the defect, and declined the security. Others, perhaps, thought the whole affair a small one. With an almost entire ignorance of the average risks of fire in the city, and of the proper rates of premium to be charged for insuring against them, it seems to be remarkable that they did not perceive at the outset both the benefit and the necessity of accumulation, to give the company anything like stability—anything deserving the name of security against the variations of loss from time to time, which all perceive, though the general ratio is even now for the most part unobserved, or but partially known. I am inclined to think that the company at first was mislead by a foreign example, perhaps not perfectly understood, perhaps successful against all previous probabilities. It is quite remarkable, indeed, that the company should have gone on for even these ten years without an admonition, that the profit on the deposits could not be divided at any time, without a large reservation for undetermined contingencies. It seems as if a loss of a few thousand dollars could not have occurred in the whole period, without sweeping away the deposit fund, and breaking up the company. It is nevertheless true, that the interest upon the deposits did pay the losses and expenses, and leave a dividend to the depositors whose policies from time to time expired.

"The facts say something perhaps in favor of the general carefulness, sobriety, and good order of our city at that early time, and for the then common union of all the able-bodied inhabitants at fires, guided by men of known energy and character, at a day, when such men took the lead with general con-

sent, and compensated for many defects both in the apparatus and supply of water. But all subsequent experience seems to be against fire insurance companies upon such a principle, as it is also against such companies as approach it in practice, while they have a better principle in their constitutions.

#### ANOTHER CHANGE.

“At a general meeting in April, 1763, the members unanimously expunged this provision from their deed of settlement, and substituted two cardinal provisions in its place: 1. That the interest arising from the stock, should be carried to one common account, to answer the contingent charges of the company, and all losses and damages that might happen to the same. 2. That no part of the deposit money should be expended in repairing or paying for any damage done by fire, until the balance of the interest money, as shall accrue to the time of such fire, shall be first expended.

“This change seems to have been recommended by the directors, upon the ground mainly of convenience, to avoid the necessity of troublesome calculations of dividends of profit upon the expiring policies; a sufficient reason, perhaps to be assigned at the general meeting. But it is impossible to believe that the members of the board of directors did not perceive by the condition of the company, as well as by the consideration of general principles, a far weightier reason in the necessity of giving tone to a languishing body, so as finally to endow it with strength to meet all probable hazards in reserve for it. I have no doubt that the last was a ruling motive and object, and I desire to give them credit for it. It was a great thought. So far as I can discover from the constitution of a primitive Mutual assurance fire company elsewhere, it was an original thought, and it was undoubtedly a thought as full of good-will towards the distant future, as it was of precaution for the time at hand—for those who might at any subsequent day seek the security, as

well as for those who had then availed themselves of it. It has been the building up of the company to its present adult strength and solidity."

As a result of the changes, the company grew stronger both in reserve and in business. In those days the subject of insurance had been studied but little. The hazards were guessed at. The building up of a reserve was commenced none too soon. Concerning this Mr. Binney says:

"And in this state of our knowledge, the thing that was the best for them to do, was what they did and what we do at present, and it is still the best than can be done by us, namely, to regard our premiums of insurance as including no profit at all, but as requiring constant accumulation to meet the unknown hazards of the time to come, and which I fear are increasing among us from day to day. We may be wrong, and if we are, we are wrong on the right side. Those who have already declared their profits, their estimated profits, and paid them away without large reservations for the future, may be, and indeed some of them have already been, wrong on the wrong side. I do not say that there is one rule for them and another for us. I think there is not. But I know from observation in this company, of which I became a director in 1817, and have constantly been so for the last twenty-one years, that is the rule for us, which for a long time to come will be the only rule for us, that is to say, the accumulation without dividends.

"The analogous rule in companies that insure for profit at the present rates, would be the rule of very small dividends of profit, and large reservations for the unknown future, until the true rule shall be better known. For there are great calamities by fire, rarely occurring, as well as less calamities frequently occurring. There are years that may be called in life risks, years of plague and cholera, as well as years of usual or ordinary death; and such devastations or mortal years, concern the insurers against loss by fire even more than they appear to concern insurers of life, who rarely assume the risk of life in the class particularly exposed to plague and cholera. 'Fire laws' no distinction of subjects and houses can not move away from

it. Such calamities come, it is true, at more distant intervals; but still they come. A century, and even a shorter period, is the witness of them; and the duty of those who insure and mean to keep insuring to all future time, is in some manner to provide for them; and with no knowledge at present that enables us to say with demonstrable probability, what these disasters will be, or when they may be expected, the law of our institution does the best that can be done, by separating our concern from the hope of gain, and from its one-sided speculations and estimates, and by enlarging our security to the utmost against the worst that may happen. If our successors shall at the end of another century find they have too much, it will prove that the premiums, assisted by the accumulations which the deed of settlement requires, have been unnecessarily high, and the strength of the company will then become a public benefaction to the whole city and its neighborhood, in the reduction of rates of premium upon brick and stone buildings.

#### STRIKING FACTS.

“But let me state very striking facts in our history, to illustrate the degree of caution with which we should receive calculations as to the future, with our present knowledge. One of them is that at the end of this present fiscal year of our company 1852, we have, with a very inconsiderable fraction of excess, the same proportion of funds to the whole mass of insurances that we had at the end of the fiscal 1842, ten years ago, notwithstanding the intermediate accumulation. And the other is that, if the great fire of 1850 had occurred in the year 1808, it would have swept away the whole amount of our funds, deposits and accumulations for half a century. Our insurances in the quarter where the fire occurred, are supposed to have been of the same amount or nearly so in 1808, as in the year 1850. The two Mutual assurance companies of this city, who covered at an early date that quarter, as I may call it, bore the brunt of that storm; and as it was to come, it was well for us that it did not come sooner.

“The progress of the company has been from that time onward, with occasional exceptions of disastrous years; and after examination of our books, we do not concur in opinion with a very estimable and respectable annalist of our city, that there ever was a period when a loss of any extent disturbed the finances of the company. In the war of the Revolution, and in the latter days of paper money, when the investments were upon mortgage, as they still are for the most part, and when to exact immediate payment, was to get paper worth one in fifty, or less, the company may have had to proceed cautiously, to avoid paying a loss in the same paper; but except in such cases, the prompt payment of a loss cannot have disturbed them even in their infancy. Their advance was immediate after the rule of 1763; and the insurance continued to increase from year to year afterwards, to the present time. The public appear to have understood the value of the change.”

(The paper money above referred to was that of the Revolution.)

During the first century, the company gave excellent satisfaction. There was but one suit at law, and in that the company was successful. On one other occasion the directors consulted a lawyer, but no suit was commenced.

Thus passed the first century and for many years after there was no trouble.

The company did business only in Philadelphia and its suburbs, only selected risks were taken and the company was never engaged in litigation. Losses were paid in full as soon as adjudged and everything appeared to be satisfactory. But in 1894 there was an outbreak. No commissions had been paid to agents till 1888. From that time until recently small commissions were paid and a number of small but perfectly good risks were accepted.

From these new and small contributors just referred to, the whole trouble of 1894 sprang.

Prior to 1894, any contributor who felt so disposed attended the annual election on the second Monday in April and voted.

Proxies, the legality of which was then for the first time questioned, had been voted for upwards of fifty years, and probably much longer.

That so few, (generally about seventy-five) voted, probably arose from the fact that the contributors were entirely satisfied with the management of the company.

Be this as it may, however, up to the day of election in 1894 not a single complaint from any contributor had ever reached the ears of the board against the policy pursued by it, nor a single suggestion or intimation that a change was desirable.

On the second Monday of April, at 2 p. m., the annual election was held; a great crowd of persons appeared at the office of the company to carry out the plan of electing a new board.

For such an attack the management was wholly unprepared. The new ticket submitted did not contain the name of a single individual who had been a contributor more than two years, save two of the old directors, whose names were used without their consent, and, with a few exceptions, was composed of those who had, through brokers, effected insurance in small amounts.

It was not possible that in the two hours allotted to the election on that day to attempt to defeat his project. A number of contributors in the neighborhood, hearing of the contest, came in and voted, and at 4 o'clock the election was adjourned until the next day under the express provisions of the deed of settlement. The actual result of this first day election, in view of what subsequently happened, is not important, but it is instructive.

While it is not stated in so many words, it is clear from this account that there was an attempt to get control of the company. The opposition went into court and a new election was ordered and resulted in an overwhelming victory for the old management. To prevent all such troubles in the future, the by-laws were so changed that instead of electing the entire

twelve directors each year, but three were chosen to serve for four years, the new ones being elected each year.

It was also provided that the present assets of the company should remain intact but the directors might distribute such proportion of the profit as they deemed prudent. The company has gone on since that time in its usual course.

The following is the resolution referred to.

“Resolved: That the present assets of the company shall remain intact, and that the directors be and they are hereby authorized, from time to time, at their discretion, to distribute among the policy holders of the corporation, in proportion to their deposits held by the company on policies in force respectively, such proportion of the net income from invested funds as they deem safe and prudent, after providing for losses and depreciation of assets and making such additions to the assets as they deem expedient: Provided, that all deposits made after this date shall remain at least ten years before the holder of policies issued thereon shall receive any benefit under this resolution: Provided, further, that all deposits received shall be added to the assets of the company. February 18th, 1895.”

The great element of success in this company seems to have been its remarkable ability in getting good men and keeping them. During the first century there were only 106 different directors. One served for fifty years, twenty-eight for twenty years or more. The office of secretary and treasurer were consolidated in 1817. Since that time but four persons have held the office, the present incumbent having been elected in 1859. The following letter from him will be of interest:

“In answer to your request of the 24th ult. we are mailing you today copies of the Centennial History of this company issued in 1852, an address to the members at the time of the disputed election, issued in 1894, and a copy of the charter as it stands at present.

“We are not only the oldest insurance company in America, but I believe the oldest corporation.

“We write only ‘Perpetual’ insurance on selected risks of brick and stone buildings in Philadelphia and surrounding counties, being limited by charter to Pennsylvania.

"We originally credited each depositor's (or contributor's) account with any profits, but the personal liability of each, over and above their deposits, was not attractive, so the liability feature was removed and also the profit sharing.

"In 1895, the surplus funds being sufficient, profit sharing was resumed, and dividends out of the net income from the surplus, have been paid on policies in force (according to the accompanying notice) at the rate of 10 per cent a year on the amount of the deposit.

"On December 31, 1904, we had at risk \$15,087,224, deposits \$528, 582.55 (which latter less 5 per cent practically our only liabilities). Our assets were \$5,131,210, and we had a surplus therefore of over 4½ millions. Our losses incurred during the year were \$20,127, while we paid as dividend in distribution of our net income money to members, double that. During the year, we took \$646,825 new risks for which we received \$27,064 deposit.

December 30, 1905, the assets were.....	\$ 5,364,109.42
Insurance .....	\$ 15,294,690.66

A ten per cent cash dividend was declared, making 110 per cent since 1845.

There is absolutely no assessment liability.

The present secretary of the Contributionship is J. Somers Smith, Jr., to whom the Manual Committee are indebted for the above information and for many other courtesies.

## CHAPTER XXIV.

### MISCELLANEOUS MATTERS.

#### CO-INSURANCE.

Some policies are so worded that they make the companies responsible for all damages up to their face. Under such policies, if a house is insured for \$1,000, the company will pay a partial loss in full up to \$1,000. Other policies agree to pay only three-fourths or some other part of the value of the property and the same proportion of a partial loss. In this case, if a house is insured for \$1,000, and is appraised at \$1,000, the company would pay, in case of loss, \$750, in case of partial loss, say, of \$400, they would pay \$300.

Again, there are companies which insist that the insured shall carry a certain amount of insurance, say seventy-five per cent, in companies which shall be jointly responsible for all losses. Failing to do so, in case of loss he only gets an amount bearing the same proportion to the total loss that the insurance he carried does to the amount of the policy.

Policies are frequently written “\_\_\_\_\_ concurrent insurance permitted.” In the event of concurrent insurance all the companies should be notified of whatever insurance is placed upon the property.

In re-insurance, there is but one company and one adjuster to deal with and if the company is sound there is no trouble. But the insured does not see the re-insurance policy and does not know its provisions, and if the first company fails he may find himself unprotected. This matter is now before the courts, and the legislatures will probably establish a rule.

Insurers may complicate matters by their own carelessness or ignorance. A man may insure his property in good faith

for a reasonable amount. Some one may persuade him that his company is unsound or he may forget when his policy expires and effect another insurance and may have two or three policies in force at the same time. Such a complication would in all probability get into court and the verdict would probably be that the policy holder would lose his case.

The policy holder should always carry a portion of the risk. Good companies instruct their agents to limit their policies to two-thirds or three-fourths of the actual value of the property and to take a premium only on the sum they intend to pay in case of loss. It is argued that when one of these clauses is inserted in a policy that the temptation to over insure will be removed and that the policy holder will place a fair value on his property.

As a weak point of the valued policy law is that it places no restraint upon the policy holder who over insured, so the weak point of these clauses is that they do not reach the companies. Nor does either one reach the agent without whose connivance no over insurance can be effected.

The underlying thought of the anti co-insurance laws is the same as in the case of the valued policy laws, an endeavor to compel the companies to stand up to their bargains and thus compel fair dealings by making it to the interest of the companies to avoid over insurance.

#### RE-INSURANCE.

Whenever a policy holder insists on dealing with only one company, as many do, if the risk is a large one, the company must either decline it and lose the business, or reduce its liability by re-insuring so much of it as is above the limit which the company has fixed for itself.

There is no reason why insurers should not prefer to deal on that plan. In cases of loss, settlement is much easier, there is only one policy, only one contract with one set of provisions, instead of several, each with its own set of technicalities, not only different, but sometimes contradictory, and most important of all, there is only one adjustment.

Now is there any reason why Mutuals should refuse such risks. They are profitable. The hazard is generally low for such business, it usually comes from careful men, and when such a customer is once secured he becomes a source of profit.

Another reason for re-insurance is that if the policy holder divides his own insurance he may put some of it in unfriendly stock companies, and thereby cause no end of trouble. But if the Mutuals re-insure in other Mutuals all trouble of this kind will be avoided.

Two cautions are pertinent. The first is to see that the policy expresses exactly what is to be done. If the company merely insures a certain amount with the understanding that the policy holder places the rest where he chooses the policy should be written for that amount, and the words "\_\_\_\_ concurrent insurance permitted," or others to the same effect should be inserted.

The second is that in case of re-insurance the policy should not be in force till the re-insurance took effect. An illustration will show the reason for this. A Mutual takes a risk of \$25,000 expecting to re-insure \$23,000 in twelve other companies, but before it is done the property burns. The whole loss falls on the Mutual. This difficulty is easily avoided.

#### SUBROGATION.

Subrogation, in law, is the substitution of one person in place of another, giving him the right of the person whose place he takes. The subject is of importance to insurance companies as their policies are often assigned as security for debts and especially for mortgage loans. This requires the consent of the company and the fact of the assignment as well as the consent of the company must be endorsed on the policy. A common form is "Loss, if any under this policy, payable to \_\_\_\_\_ as their interests may appear." Under this, or any similar contract, in case of loss by fire, the insurance money would be paid to the mortgagee or the creditor so far as covered by his claim, the balance, if any, going to the debtor.

Many loan companies use special forms, containing several provisions which should be submitted to an attorney.

The right of subrogation exists by statutory enactment, in many states, it being provided that where the insurance company claims that the fire was caused by act or neglect of any person or corporation on payment of such loss the insured shall assign to the company his right to recovery from said person or corporation and this whether stipulated in the policy or not.

Generally, when an insurance company pays a loss caused by negligence of a railroad company, or other common carrier, it becomes subrogated to the rights of the insured against the railroad company.

The Western Underwriter has the following:

“The railway subrogation waiver clause creates an endless amount of correspondence. There is only one form permissible, yet agents are constantly attempting to improve upon it. Stick to the text which is as follows: ‘Notice is hereby acknowledged that the assured has waived the right of recovery from the.... .... Railroad Company, for any damage by fire occurring to the property described herein, or affected thereby.’”

The whole subject is too difficult and too complex for a work of this kind. Should a case arise the services of a good attorney should be secured.

#### LIABILITIES OF MEMBERS OF MUTUALS.

This question has been settled years ago but circulars are still issued stating that each member of a Mutual is liable for all he is worth in case of loss, if a Company fails to pay. They make this assertion without any regard to any state law, or stipulation or condition in the policy.

The circulars alluded to bear neither date, signature or even imprint, a circumstance which is sufficient proof that they were not issued with honest intents. They may be dismissed without further notice.

While the laws in most of the several states differ **very** greatly, the statutes concerning insurance companies, or which

affect their business, generally provide for three classes. First is the old line stock company, in which the whole affair is owned by stock holders. Of course the laws of the state granting the charter control in each particular case.

The second class corresponds very nearly with the ordinary co-partnership. Many of the smaller mutuals the township and especially the fraternal and denominational mutuals are so organized and purposely. They deal only with those they know personally, take no extra hazardous or disproportionately large risks and pay all losses in full.

There is still a third class which, in most states comes under a special law. The liability is limited to the face of the note by statutory enactment. Massachusetts provides two methods, cash payments, with a liability of an equal additional amount, the total liability being "plainly and legibly stated on the back of the policy" and deposit notes which constitute the entire liability of their members. New Hampshire, Connecticut and others limit the liability to the face of the premium note. The same is true in Kansas. These laws have been in force many years.

There are the Mutuals which carry no funds, take no notes and assess to pay losses and expenses. These generally stipulate that losses shall be paid in full. Provision is made against burdensome assessment by providing that such companies shall have a certain number of policy holders and a certain amount at risk before they can begin business, and this is large enough to do away with the danger of a burdensome assessment. If they should fall below this at any time they would be compelled to quit business, till they had secured enough more policy holders and risks to bring them up to the standard.

There is still another class, those mutuals which are working without charter, and practically without legal organization. They can neither sue nor be sued. Among these will be found church insurance companies, fraternals, etc. These companies work very cheaply and depend upon honor for the enforcement of contracts, having no legal liability whatever. To do them justice, it must be said they are doing excellent work.

There is some of the same spirit in all mutuals. It is a matter of honor, to do a safe business, and to meet their obligations, and they do so quite as well as any other business organizations.

#### THE SAFETY LIMIT.

How large a policy may a Mutual issue?

This is a question frequently asked. Thus far there has been no answer of general application. Several states have statutory provisions; they differ widely. Maine prohibits in any one risk "an amount exceeding twenty-five per cent of its gross assets, including the amount due at any one time on its premium notes." Massachusetts and New Jersey limit the amount to one tenth of the net assets; Connecticut to one tenth of paid up capital and surplus; Idaho, Wyoming and Indiana to ten per cent of paid up capital; Colorado to five per cent of paid up capital; Washington limits the risk to \$1,000 on each \$750,000 insured. Other states have different provisions and many ignore the matter. These enactments are evidently the wildest guess work with no scientific basis whatever. All state enactments are apt to err on the danger side. They get the bank reserve too small and the policy limit too large. There is a rule current among insurers that the largest risk in a single policy should never exceed ten per cent of the annual premium receipts for one year. This is much smaller than the lowest statutory limit quoted, except in Colorado, but is still higher than the usage of insurance companies in general.

There seems to be no definite rule, at least none can be discovered from reports. Many answer the question by saying "no limit," others give figures evidently taken from the by-laws but an inspection of their assessments shows that they have never had any losses of such magnitude, and their average of risks is so far below it as to preclude the idea of such large policies. It is more probable that the officials in taking risks keep in view, the size of the assessment in case of loss. In Wisconsin for example, where the Mutuals have been wonderfully successful, the limits of risks are large. But very many of the Mutuals made no assessment at all last year and scarcely

any made a levy which would have paid a large loss. It is evident that there is no unity of opinion on the matter.

#### **DUTIES OF THE STATE.**

All chartered bodies are creatures of the State, and though modern philosophers and interested parties may protest most vigorously, it will remain true that in the universe and in the state the creator is greater than the creature. It may be said in addition that no chartered company can hold a vested right against public policy. As a legitimate deduction from this, it may be stated that all corporations are subject to the state laws and every kind of chartered insurance company is included. Without entering into a discussion of this much debated matter, it may be said in the case of insurance companies the state should go far enough to protect the individual insurer against fraud or mismanagement, to compel the companies either to prove their ability to fulfil their contracts or to close up business while it is possible to do so, without material loss to the policy holders.

To faithfully perform this duty the state should periodically make complete and thorough examinations of all insurance companies. The facts to be established are that the company is able to meet its engagements, is fairly and honorably conducted and is fully complying with the laws of the State. The cost of this to the policy holder is trifling.

There will be no concord of opinion as to what legislation is advisable. The varying conditions of the several states preclude any general laws, applicable alike in every state. Statutes providing for good management, security and fair dealing exist in nearly all the states.

As a general rule, after safety and good management have been provided for, the less meddling by the state, the better. Details often depend on local conditions and should be left to the local companies.

#### **TAXATION OF MUTUALS.**

Mutual insurance companies are not organized for profit and therefore should not be compelled to pay a percentage on

their receipts. Such taxes are not levied upon property but upon income, and are, in their nature, licenses to do business, and are usually intended to reach foreign corporations and joint stock companies.

An inquiry concerning this matter made by the committee resulted in developing the fact that there is no uniformity of procedure. Some companies reported that they never had paid a tax, others complained that they were compelled to pay too heavily. Generally the Mutuals which assessed after a loss were exempt from taxation. They had nothing to tax. Others which made advance assessments paid on what they happened to have on hand, in other words they paid on the property in their possession. There is no general rule.

#### **LEGAL.**

In discussing legal questions it has not been the intention of the compilers of this Manual to make it a law book, or to supersede attorneys and courts, but only to give such general information as is usually current among business men, leaving particular cases and technical points to the attorneys of the companies. As a ship in mid ocean, managed by her own captain who only knows enough of hidden dangers to keep at a distance, pursues her course in safety, but when she comes to intricate channels and narrow passages, secures the services of an expert pilot, so, in general, these directions will answer, but when special cases arise and complicated questions are to be decided, the services of an attorney will be needed.

The man who always "stands on his rights" is generally in trouble with his neighbors, and so the official or clerk who is always consulting law books and attorneys to see how little he is obliged to do by the statutes in the case made and provided, is one whose services should be dispensed with at once. The average man does not wish to be annoyed with technicalities, and legal discussions. Courts and juries are disregarding them more and more. In fact adhering to technicalities is looked upon as evidence of intention to take advantage, while doing all that can be done, even though one does more than is called for, is evidence of good faith and goes a long way with a jury. Insurance officers should act upon this principle and in cases of doubt, always take the safe side.

## CHAPTER XXV.

### LAWS---COURT DECISIONS.

#### IOWA DECISIONS--Relating to Co-operative Mutual Insurance.

The Supreme Court of Iowa has held that where the articles of incorporation show that an insurance company is organized to do a mutual insurance business and to insure only the property of its members, that the company could not insure the property of any one not a member and the issuance of policies of insurance on the stock plan was invalid. *Corey vs. Sherman*, 96 Iowa, 114.

A mutual fire insurance company cannot issue a policy to one not a member, nor for a stated and definite amount of insurance, nor for a stipulated premium.

One who insures his property in a mutual company in a stated amount for a specified premium, does not become a member and acquires no rights.

The creation of a guaranty fund held not to deprive the corporation of the character of a mutual company.

Where the statute provides that a copy of the application shall be printed or written upon the insurance policy, such requirements are applicable to mutual companies.

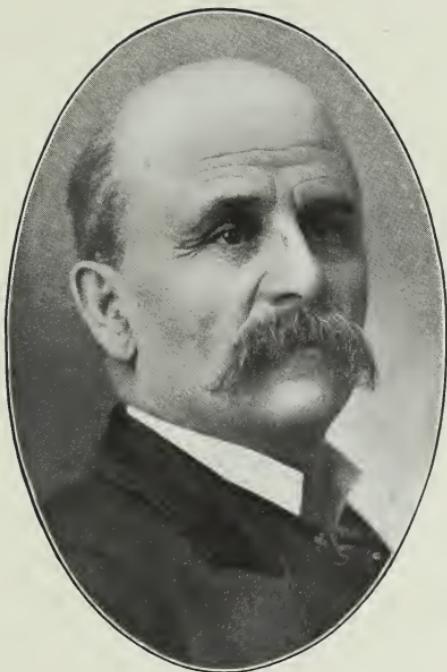
Although in general, a money judgment cannot be rendered against an assessment company, yet, if the company has issued a policy in which it agrees to pay a fixed sum in case of loss, such action may be maintained. *Byrnes vs. American Mutual Fire Insurance Company*, 114, Iowa, 738.

Where it is not required by the articles and by-laws, notice of assessment need not be given before the assessment is made. *Corey vs. Sherman*, 96 Iowa, 114.

The members of mutual insurance companies are presumed to have knowledge of the articles of incorporation and by-laws. *Corey vs. Sherman*, 96 Iowa, 114.

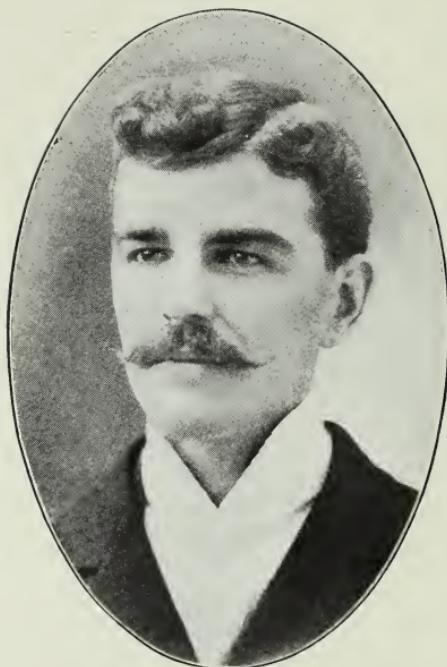
Even in purely mutual benefit associations, as between the assured and the company, the latter stands in something of an independent attitude, and may be held bound, sometimes without such intention. This intent or purpose will not always be held as a matter of law, to be known to the insured, because of his membership.

*Matthes vs. Imperial Accident Association*, 110 Iowa, 122.



#### **R. J. YOUNG, OELWEIN, IOWA.**

Mr. Young is one of the veterans. He has been an active and efficient worker in Mutual Insurance lines for more than thirty years. He served as director, treasurer and secretary of the Fayette County Mutual, acting in the latter capacity for nine years. He is also a director of the Farmers' Mutual and Grain Growers Hail Insurance Company and has served on the executive board for nine years. He assisted in organizing the Town Dwelling Mutual Fire Insurance Company of Des Moines, Iowa, thirteen years ago, still being on the directory. He has been a member of the Iowa Mutual Tornado Insurance Company since its organization.



#### **PETER F. ZIMMER, LINCOLN, NEBRASKA.**

Mr. Zimmer, a native of Michigan, has devoted all his life to insurance of different classes in the States of Nebraska, Colorado, Minnesota and the Dakotas. In 1899 his brother and himself organized the United Hail Insurance Association, of which they are still the managers. For four years they fought the wild cat companies of Nebraska, finally securing the law requiring a \$50,000 guarantee on the part of the officers of hail insurance companies for the faithful accounting of the funds of such companies. Their company is the only hail company in the state which has made a continuous success of the business from the very first.

The mutual benefit life association may waive the provisions of its policies as to medical examination.

Watts vs. Equitable Mutual Life Association, 111 Iowa, 90.

While each policy holder is a member of a mutual company during the life of his policy, he does not become a member until the policy is issued and in the negotiations for it, he stands in the relation of a stranger to the company.

Even as to renewal of a policy, already in existence, the parties are dealing at arms length.

Parno vs. The Iowa Merchant's Mutual Insurance Company, 114 Iowa, 132.

The creation of an indebtedness incident to the organization and the conduct of the business of a mutual association, may be authorized by the articles of an association, and the repayment of such indebtedness may be enforced.

Ainley vs. American Mutual Fire Insurance Company, 113 Iowa, 709.

While members of a mutual company may be bound by by-laws adopted after they became members, nevertheless, the terms of a policy of insurance will be presumed to be covered by the by-laws in force when it was issued, and not to be affected by those subsequently adopted.

Farmer's Mutual Hail Association vs. Slattery, 115 Iowa, 410.

#### THE IOWA ANTI-COMPACT LAW.

This law reads as follows:

Section 1754. "It shall be unlawful for two or more fire insurance companies doing business in this state, or for the officers, agents or employees of such companies, to make or enter into any combination or agreement relating to the rates to be charged for insurance, the amount of commission to be allowed agents for procuring the same, or the manner of transacting the fire insurance business within this state; and any such company, officer or employee violating this provision shall be guilty of a misdemeanor and a fine is imposed for each offense."

It has been held constitutional by the United States Supreme Court.

#### MINNESOTA LAWS AND DECISIONS.

The following extracts from the laws of Minnesota and from the court decisions will be of general interest.

"In a Mutual fire insurance company, organized under Laws 1881, c 91, the capital is made up of cash premiums and premium notes."

Taylor vs. North Star Mut. Ins. Co., 46 Minn., 198 N. W. 772.

"One insuring in a Mutual Company becomes a member

thereof.'’ *Taylor vs. North Star Mut. Ins. Co.*, 46 Minn., 198 N. W. 772.

“General Laws 1881, c. 180, authorizes certain mutual companies which have attained a certain capital to assume to a limited amount risks ‘on the all cash plan, and issue policies,’ etc. Held, that the holder of an all cash policy did not thereby become a member of the company.” *In re Minneapolis Mut. Fire Ins. Co.*, 49 Minn. 291, 51 N. W. 921.

Non-participating policy holders are customers, not members.

“Gen. Laws 1881, c. 91, authorizing the formation of Millers and Manufacturers’ mutual insurance companies, authorized persons engaged in such business to form themselves into a corporation for the purpose of insuring ‘upon the plan of Mutual Insurance,’ mills, etc. Section 12 provided that every person insured by the corporation should pay at the time of receiving his policy such sum in money, and give his premium note for such further sum, as might be required, and that all persons effecting insurance in such corporation should thereby become members thereof, and should be bound to pay losses and expenses in proportion to the amount of their premium notes.

Gen. Laws 1885, c. 180, provided that whenever the capital of any company organized under the act of 1881 should amount to a certain sum, of which not less than a certain amount should be actual funds, such company might “assume risks on the all cash plan and issue policies against loss or damage by fire or lightning on any property real or personal, to an amount not exceeding 5 per centum of its capital stock.” Held, that the law of 1885 authorized such companies to enter into contracts of simple “all cash” (not mutual) insurance to the limited extent specified, and a policy in the ordinary form of such contracts is a contract of simple (not mutual) insurance. *In re Minneapolis Mut. Fire Ins. Co.*, 49 Minn. 291, 51 N. W. 921, *Powell vs. Wyman*, Id.

A Mutual insurance company, organized under Gen. St. 1878 c. 34, articles 338-347, authorizing it to insure “detached dwellings and their contents, and farm buildings and their contents, and live stock and hay and grain in bin or stack,” has no power to insure growing grain of its members against loss by hail. *Delaware Farmers’ Mut. Fire Ins. Co. vs. Wagner*, 56 Minn. 240, 57 N. W. 656; *Same vs. Knuppel*, 56 Minn. 243, 57 N. W. 656.

It is a good defense to a note given in payment of the insurance premium that the company had no power to issue the policy for which such note was given. *Rochester Ins. Co. vs. Martin*, 13 Minn. 59, (Gil. 54).

In a Mutual fire insurance company organized under Laws 1881, c. 91, premium notes, together with cash premiums, constitute the capital, and are assessable in proportion to the amount of losses sustained. *Taylor vs. North Star Mut. Ins. Co.*, 46 Minn. 198, 48 N. W. 772.

A member of a mutual insurance company cannot be assessed for losses sustained before he became a member of the Company. *Swing vs. North Star Mut. Ins. Co.*, 62 Minn. 169, 64 N. W. 97.

Where an assessment on the premium note of a member of a mutual insurance company is rendered of a larger amount as to him, through the knowing omission of other member liable to assessment, it is voidable. *Swing vs. H. C. Akeley Lumber Co.*, 62 Minn. 169, 64 N. W. 97.

Rev. St. Ohio, Sec. 3650, providing that in making the assessment on members of a Mutual insurance company, the board of directors shall determine the sum to be paid by the several members, and publish the same in such manner as they choose or as the by-laws prescribe, and that the amount so assessed shall be paid within 30 days next after publication of such notice, contemplates a publication of the whole assessment list, and not a mere notification of a member by mail of the amount of his own assessment. *Swing vs. Wurst*, 67 Minn. 198, 79 N. W. 94.

A misrepresentation or concealment, to effect the policy, must be material to the risk. *Aetna Ins. Co. vs. Grube*, 6 Minn. 82, (Gil. 34).

Where a policy of fire insurance provides that the same shall become void in case the insured mortgages the same without notifying the company, a mortgage of a portion only, without giving the prescribed notice, will vitiate the whole policy. *Plath vs. Minnesota Farmers' Mut. Fire Ass'n.*, 23 Minn. 479, 23 Am. Rep.

Where an insurance agent, authorized to procure and forward applications, makes out an application incorrectly after having received correct information, the agent does not become the agent of the assured because of a stipulation in the policy subsequently issued that the acts of the agent in making out the application shall be deemed the acts of the insured. *Kansel vs. Minnesota Farmers' Mut. Fire Ins. Ass'n.*, 31 Minn. 17, 16 N. W. 430.

An insurance company is responsible for its agents mistakes in wrongly stating facts correctly given him by the assured. *Kansel vs. Minn. Farmers' Mut. Fire Ins. Ass'n.*, 31 Minn. 17, 16 N. W. 430.

A policy of insurance was issued on certain farm property, including stables and "hay therein or in stack," and designated as being in the possession of the assured, who was referred to as residing on a farm particularly described. The assured owned some hay in stack, not on the land described, and two miles distant from his residence. The agent of the company who effected the insurance, and made out the description of the property inserted in the policy, knew of this hay, and, as between him and the assured, it was understood that it was to be covered by the policy. Held, that such hay was covered by the policy, although the company's articles of incorporation declared that property under the immediate control of the assured, only, should be insured. *Soli vs. Farmers' Mut. Ins. Co.*, 51 Minn. 24, 52 N. W. 979; *Berhstron vs. Same*, 51 Minn. 29, 52 N. W. 980.

The acceptance of premiums and assessments on a policy after a loss will not bind the insurer, as a waiver of non-payment of the premium or assessment, if the insurer was ignorant of the fact of loss. *McMartin vs. Continental Ins. Co.*, 41 Minn. 198, 42 N. W. 934.

A valued policy is one in which the value of the property insured is fixed and agreed upon by both parties to the contract, and, in case of total loss, it is not necessary that proof should be made of the market value at the time and place of shipment. *Williams vs. Continental Ins. Co.*, 24 F. 767.

Failure to give notice of loss for nearly 60 days after the fire, constituted, as a matter of law, a breach of condition requiring the giving of "immediate notice." *Armentrout vs. Girard Fire & Marine Ins. Co.*, 63 Minn. 305, 65 N. W. 635, 30 L. R. A. 346.

Where an insurance company, upon information that property covered by one of its policies had been damaged by fire, makes investigation into the cause of the fire, obtaining information sufficient to determine its liability, expressly recognizes such liability, and prepares proof of loss from the information thus obtained, which it presents to the insured for signature, but which he refuses to sign because of the stipulation of settlement therein contained, the failure on the part of the insured to make and serve formal proof of loss is waived. *Larkin vs. Glens Falls Ins. Co.*, 80 Minn. 527, 82 N. W. 409.

A provision for arbitration is waived by the company's denying liability after loss, and telling insured that he will

have to resort to the courts. Hamberg vs. St. Paul Fire & Marine Ins. Co., 68 Minn. 335, 71 N. W. 388.

The description of the property insured was a two story frame, brick veneered building and additions attached, including the foundation and all permanent fixtures situated therein. The building and additions were totally destroyed by fire. Held, that it being conceded that the loss by fire exclusive of the foundation included in the policy, was greater than the amount for which the property was insured, it was not error for the trial court to direct a verdict for the plaintiff. Ohage vs. Union Ins. Co. of Philadelphia, 85, N. W. 212.

#### NEBRASKA LAWS AND DECISIONS.

##### BRIEF OF INSURANCE DECISIONS BY HON E. M. COFFIN.

Mutual Insurance in Nebraska is affected by the following decisions:

Refusal of Auditor to grant certificate, no defense is an action for assessment. Burmood vs. Insurance Co., 42 Neb., 598.

Cannot recover for loss while assessment is delinquent. Farmers Mutual vs. Kinney, 64 Neb., 808.

Mutual Hog Co. cannot limit assessment. Morgan vs. Insurance Co., 62 Neb., 446. This applies also to Fire companies organized under 1897 law.

Mutual Live Stock Association held to be an Insurance Co. State vs. Live Stock Ass'n., 16 Neb., 549.

Valued policy law valid and applies to mutual insurance companies. Farmers Mutual vs. Cole, 93 N. W., 730.

Act allowing Attorneys' fee valid and applies to Mutual Insurance Companies. Farmers Mutual vs. Cole, 93 N. W., 730.

Act of 1891 for organization of Farmers Mutual companies valid. State vs. Moore, 48 Neb., 870.

Mutual Company organized under act of 1891, cannot take notes for premium. State vs. Moore, 48 Neb., 870.

That building was burned by third party is no defense. Union Insurance Co. vs. McCullough, 96 N. W., 79.

Policy not invalidated by change of tenants. Union Insurance Co. vs. McCullough, 96 N. W., 79.

Application signed by a husband and wife on wife's property does not effect rights. Union Ins. Co. vs. McCullough, 96 N. W., 79.

Agreement in application to be bound by subsequently passed by-laws is binding on member. Hale vs. Western Travelers Ass'n., 96 N. W., 170; Farmers Mutual vs. Kinney, 64 Neb., 808.

If company has actual knowledge of loss, it waives proof of notice. Western, etc., Ass'n. vs. Tomson, 103 N. W., 695.

If company denies liability, it waives proof of notice. Western, etc., Ass'n. vs. Tomson, 103 N. W., 695.

Where a blanket policy is issued and only part of property is destroyed, cannot claim total loss. Johnson vs. Phelps Co. Mutual Ins. Co., 102 N. W., 72.

Misrepresentation of material matters in application voids policy. Royal Neighbors vs. Wallace, 102 N. W., 1020.

Demanding proof after knowledge of breach waives same. Fidelity Mutuals vs. Murphy, 95 N. W., 702.

Restrictions on agent's authority in policy not binding on assured as to acts in taking application. Fidelity Mutual vs. Lowe, 93 N. W., 749.

Agent of mutual company in taking applications stands on same basis as agent of stock company. Fidelity Co. vs. Lowe, 93 N. W., 749.

Organic act, articles of incorporation, by-laws, application and certificate, constitute the contract of insurance. Farmers Mutual vs. Kinney, 64 Neb., 808.

Liability of member of mutual company continuing one. Morgan vs. Hog Raisers Ins. Co., 62 Neb., 446.

Assessment not invalid because Board of Directors assisted in making assessment although secretary is authorized to make same. Phelps Co. Farmers Mut. vs. Johnson, 66 Neb., 590.

When a policy is deemed cancelled at request of insured. Farmers Mut. Ins. Co. vs. Phoenix Ins. Co., 65 Neb., 14.

Company must cancel policy at request of insured. State Ins. Co. vs. Farmers Mutual, 65 Neb., 34.

Cancellation at request of insured takes effect from time of receipt of policy by Company. Farmers Mutual vs. Phoenix Ins. Co., 65 Neb., 14.

After request for cancellation, claim for unearned premium may be assigned. State Ins. Co. vs. Farmers Mutual, 65 Neb., 34.

Method of computing unearned premium. State Ins. Co. vs. Farmers Mutual, 65 Neb., 34.

Misrepresentations to void a policy must be untrue and known to be so by applicant. Aetna Ins. Co. vs. Rehlaender, 94 N. W., 129; Royal Neighbors vs. Wallace, 99 N. W., 256; Farmers Mut. vs. Cole, 93 N. W., 730.

Vacancy does not of itself work forfeiture but is ground for declaring same. Hunt vs. Ins. Co., 66 Neb., 121.

Conveyance absolute in form as security for contingent liability, which never occurs, does not forfeit policy. Henton vs. Ins. Co., 95 N. W., 670.

Attempted waiver by local agent in violation of policy not binding on company. *Hunt vs. Ins. Co.*, 66 Neb., 121.

Notice to local agent is notice to company. *Hunt vs. Ins. Co.*, 66 Neb., 121.

Act of agent in taking application binding on company. *Fidelity Mut. vs. Lowe*, 93 N. W., 749.

Waiver of forfeiture need not be in writing. *Hartford Ins. Co. vs. Landfare*, 63 Neb., 559.

Secretary may waive forfeiture. *Nebraska Mercantile Mut. vs. Sasek*, 64 Neb., 17; *Johnston vs. Phelps Co. Mut.*, 63 Neb., 21.

When only part of insured property is destroyed while assessment is delinquent, subsequent acceptance of assessment is not a waiver of default. *Farmers Mut. vs. Kinney*, 64 Neb., 808; *Johnston vs. Phelps Co. Mut.*, 63 Neb., 21.

Loss by wind on single corn crib not covered by policy. *Farmers Mut. vs. Tighe*, 91 N. W., 520.

Where proofs are waived, interest should be computed from date of loss. *Hartford Ins. Co. vs. Landfare*, 63 Neb., 559.

Where action may be brought on domestic Ins. Co. Western etc., *Association vs. Taylor*, 62 Neb., 783; *Grand Lodge vs. Bartes*, 64 Neb., 800.

When liability is denied, action may be brought before sixty days has expired. *Modern Brotherhood vs. Cummings.*, 94 N. W., 144; *Anders vs. Ins. Co.*, 62 Neb., 585.

Proofs of loss are admissible in evidence. *M. W. A. vs. Kozak*, 63 Neb., 146.

Foreign Ins. Co., without certificate of Auditor to do business in Nebraska, cannot enforce contracts in our courts. *Conn. Mut. Ins. Co. vs. Hayden*, 60 Neb., 636; *Barber vs. Boehen*, 21 Neb., 450.

Occupation tax on Ins. Co. valid. *German Ins. Co. vs. City of Minden*, 51 Neb., 870.

Service of summons on agent good. *Bankers Ins. Co. vs. Robbins*, 55 Neb., 117.

Person taking application is agent of company. *State Ins. Co. vs. Jordan*, 29 Neb., 514.

Local agent may consent to additional insurance or to mortgage of property. *German Ins. Co. vs. Rounds*, 35 Neb., 752; *German Ins. Co. vs. Penrod*, 35 Neb., 273.

Agreement of soliciting agent to procure insurance, not binding until policy is issued. *Farmers Mut. Ins. Co. vs. Graham*, 50 Neb., 818.

Knowledge of soliciting agent obtained while taking application is knowledge of company. *Home Ins. Co. vs. Gurney*, 56 Neb., 306; *Phoenix Ins. Co. vs. Holcombe*, 57 Neb., 622.

Knowledge of recording agent is knowledge of company. Home Ins. Co. vs. Bermstein, 55 Neb., 260; Eagle Ins. Co. vs. Globe Co., 44 Neb., 380.

Contract of insurance should be construed strongly against company. Conn. Ins. Co. vs. Waugh, 60 Neb., 353.

Premium note sufficient consideration for policy. F. & M. Ins. Co. vs. Wyard, 59 Neb., 451.

Act of unauthorized person in taking application ratified by Company by accepting same. F. & M. Ins. Co. vs. Wyard, 59 Neb., 451.

Where policy is ambiguous, parol evidence is admissible. M. W. A. vs. Kline, 50 Neb., 345.

Recitals not contractual not binding. Conn. Mut. vs. Hayden, 60 Neb., 636.

In absence of fraud or mistake, written contract of insurance cannot be varied by parol. McLaughlin vs. Ins. Co., 38 Neb., 725.

Parol contract of insurance may bind Company. Neb. & Iowa Ins. Co. vs. Seiver, 27 Neb., 541.

Policy may be reformed in equity. Cook vs. Ins. Co., 60 Neb., 127; Slobodisky vs. Ins. Co., 52 Neb., 395; Home Ins. Co. vs. Gurney, 56 Neb., 306; Home Ins. Co. vs. Wood, 50 Neb., 381; Pacific Ins. Co. vs. Frank, 44 Neb., 320.

Misdescription of property in policy not fatal, and reformation not necessary to recover. Omaha Ins. Co. vs. Dufek, 44 Neb., 241; Phoenix Ins. Co. vs. Gebhardt, 32 Neb., 144.

Mutual Ins. Co. may recover judgment for full amount of premium note. Farmers Ins. Co. vs. Wilder, 35 Neb., 572.

Where there is breach causing forfeiture, no unearned premium can be recovered by assured. Home Ins. Co. vs. Kuhlman, 58 Neb., 488; Farmers Mut. vs. Home Ins. Co., 54 Neb., 740.

Assignment of policy without consent of Company, voids same. New England Co. vs. Kneally, 38 Neb., 895.

In order to cancel policy, Company must notify assured and return unearned premium. German Ins. Co. vs. Rounds, 35 Neb., 752.

Member of Mutual Ins. Co. must pay assessments in order to have his policy canceled. Burmood vs. Ins. Co., 42 Neb., 598.

Material misrepresentation voids policy. Seal vs. F. & M. Ins. Co., 59 Neb., 253.

May prove correct statements to agent by parol, though false statements were placed in written application by agent. German Ins. Co. vs. Hart, 43 Neb., 441; German Ins. Co. vs. Frederick, 57 Neb., 538; Omaha Ins. Co. vs. Crighton, 50 Neb.,

314; *Home Ins. Co. vs. Fallon*, 45 Neb., 554; *State Ins. Co. vs. Jordan*, 29 Neb., 514.

The difference between warranty and representation stated. *Aetna Ins. Co. vs. Simmons*, 49 Neb., 811.

Statements construed as representations and not warranties. *M. W. A. vs. Shryock*, 54 Neb., 250; *Omaha Ass'n. vs. Kettenback*, 49 Neb., 842, and 55 Neb., 330.

False statement as to title voids policy. *Ehrsam vs. Ins. Co.*, 43 Neb. 554; *F. & M. Ins. Co. vs. Hahn*, 96 N. W., 225.

Encumbrance without consent of Company voids policy. *Seal vs. Ins. Company*, 59 Neb., 253; *Johansen vs. Home Ins. Co.*, 54 Neb., 548.

Forfeitures not favored by court. *Phoenix Ins. Co. vs. Holcombe*, 57 Neb., 622; *Conn. Ins. Co. vs. Jeary*, 60 Neb., 338; *F. & M. Ins. Co. vs. Newman*, 58 Neb., 504; *Springfield Ins. Co. vs. McLimons*, 28 Neb., 846.

Provision that policy shall lapse if premium not paid when due is reasonable and valid. *Home Ins. Co. vs. Garbacz*, 48 Neb., 827; *Phoenix Ins. Co. vs. Bachelder*, 32 Neb., 490; 39 Neb., 95; *F. & M. Ins. Co. vs. Wyard*, 59 Neb., 451; *Farmers Mut. Ins. Co. vs. Kinney*, 64 Neb., 808.

Removal of insured property without consent of Company voids policy. *Burlington Ins. Co. vs. Campbell*, 42 Neb., 208.

Additional insurance without consent of Company voids policy, but breach may be waived. *Home Ins. Co. vs. Wood*, 50 Neb., 381; *German Ins. Co. vs. Heiduck*, 30 Neb. 288; *Slobodinsky vs. Ins. Co.* 53 Neb., 816.

Mortgaging chattels without consent of Company voids policy, but if paid before loss, insured may recover. *Johansen vs. Home Ins. Co.*, 54 Neb., 548, and 59 Neb., 349; *State Ins. Co. vs. Schreck*, 27 Neb., 527; *Omaha Ins. Co. vs. Dierks*, 43 Neb., 473.

Transfer of title without consent of Company voids policy. *F. & M. Ins. Co. vs. Jensen*, 56 Neb., 284; 58 Neb., 522.

Contract of sale does not void policy. *Grable vs. German Ins. Co.*, 32 Neb., 645.

Transfer of property if reconveyed before loss does not void policy. *German Mut. vs. Fox*, 96 N. W., 652.

Transfer by one partner or joint owner to the other, does not void policy. *German Mutual vs. Fox*, 96 N. W., 652; *Phoenix Ins. Co. vs. Holcombe*, 57 Neb., 622.

False statements in proofs of loss do not prevent recovery. *Springfield Ins. Co. vs. Winn*, 27 Neb., 649.

Waiver of breach of condition need not rest on estoppel or new consideration. *Billings vs. German Ins. Co.*, 34 Neb., 502; *Home Ins. Co. vs. Kuhlman*, 58 Neb., 488.

Demanding proof waives breach of condition. Home Ins. Co. vs. Phelps, 51 Neb., 623.

Waiver must be pleaded and proved. Phoenix Ins. Co. vs. Bachelder, 32 Neb., 490; German Ins. Co. vs. Shader, 96 N. W. 604.

Receiving and retaining premium after knowledge of loss, waives default. Phoenix Ins. Co. vs. Dungan, 37 Neb., 468; Phoenix Ins. Co. vs. Lansing, 15 Neb., 494; Farmers Mut. Ins. Co. vs. Wilder, 35 Neb., 572.

Additional insurance will not void policy if agent knew of it when policy was written. Home Ins. Co. vs. Hamang, 44 Neb., 566; Hughes vs. Ins. Co., 40 Neb., 626; Phoenix Ins. Co. vs. Holcombe, 57 Neb., 622; Phoenix Ins. Co. vs. Covey, 41 Neb., 724.

Mutual Insurance Co. is liable on its note for loss on horse by accident although it has no power to insure against accidents. Farmers Mutual vs. Meese, 49 Neb., 861.

Owner of property may testify as to its value. Ins. Co. vs. Bachler, 44 Neb., 549.

Meaning of "totally destroyed by fire." Ins. Co. vs. Bachler, 44 Neb., 549; Eddy vs. German Ins. Co., 51 Neb., 291.

Denial of liability waives notice of loss. Omaha Ins. Co. vs. Dierks, 43 Neb., 473; St. Paul F. & M. Ins. Co. vs. Gotthelf, 35 Neb., 351.

Provision in policy that notice of proof must be given within 60 days, is valid and must be pleaded and proven, or that same was waived. German Ins. Co. vs. Davis, 40 Neb., 700; Western Ins. Co. vs. Richardson, 40 Neb., 1; German Ins. Co. vs. Fairbank, 32 Neb., 750.

Recovery may be had on parol contract of insurance. McCann vs. Aetna Ins. Co., 3 Neb., 198; Neb. & Iowa Ins. Co. vs. Seiver, 27 Neb., 541; B. & M. Relief Dept. vs. White, 41 Neb., 547.

Validity of provision requiring certificate of character in proof of loss doubted. Home Ins. Co. vs. Hamang, 44 Neb., 566.

Provision for examination of insured construed. Aetna Ins. Co. vs. Simmons, 49 Neb., 811.

If Company claims proofs are defective, it must return same with specific statement of objections. Union Ins. Co. vs. Barwick, 36 Neb., 223; Home Ins. Co. vs. Hamang, 44 Neb., 566; National Ins. Co. vs. Day, 55 Neb., 127.

By denying all liability, Company waives proofs of loss. Phoenix Ins. Co. vs. Meier, 28 Neb., 124; Dwelling House Ins. Co. vs. Brewster, 43 Neb., 528; German Ins. Co. vs. Kline, 44 Neb., 395; Phoenix Ins. Co. vs. Bachelder, 32 Neb., 490, 39 Neb.,

95; Omaha Ins. Co. vs. Hildebrand, 54 Neb., 306; Western Ins. Co. vs. Richardson, 40 Neb., 1; Aetna Ins. Co. vs. Simmons, 49 Neb., 811; Home Ins. Co. vs. Hamang, 44 Neb., 566; Lansing vs. Ins. Co., 93 N. W., 756.

Provision for arbitration is void. German Ins. Co. vs. Etherton, 25 Neb., 505; Home Ins. Co. vs. Bean, 42 Neb., 537.

Limitation of time to sue different from statute is void. Omaha Ins. Co. vs. Drennan, 56 Neb., 623.

Insurance Company that has paid loss, is subrogated to rights of insured against person who caused fire. Omaha etc. Railroad Co. vs. Ins. Co., 53 Neb., 514.

May sue where cause of action arose, although Company has no agent in said county. Ins. Co. vs. McLimans, 28 Neb., 653; Bankers Ins. Co. vs. Robbins, 53 Neb., 44.

Breach of condition must be pleaded and proved. F. & M. Ins. Co. vs. Wyard, 59 Neb., 451; F. & M. Ins. Co. vs. Peterson, 47 Neb., 747.

Defenses of no proofs of loss and that assured burned building, are not inconsistent. Home Ins. Co. vs. Decker, 55 Neb., 346.

(For other laws and decisions, see States, Chapter XXVI.)

## CHAPTER XXVI.

# THE STATE AND THE MUTUALS.

The following sketches of the conditions of the Mutuals in the several states should be full of encouragement to the friend of co-operation.

The variety of methods, the multiplicity of plans and the procedures in the several states will be surprising. That uniformity, which is the dream of idealists, is far off yet, though the underlying principle, to furnish insurance at cost, is the same in all.

The facts show that success is possible with any one of the methods mentioned.

It has been remarked by foreigners that the American people can work under any kind of a constitution and any kind of a charter. The Mutuals seem to be endowed with a similar power. They have vitality enough to survive the very worst legislation.

No attempt is made in these sketches to give a full account of the mutuals of any state, but only to bring out points of special interest.

### NO MUTUALS.

The officers of Arizona, Montana, Nevada, Utah, New Mexico and Wyoming say that there are no Mutual Fire Insurance Companies within their respective jurisdictions. No information whatever can be obtained from Louisiana.

### THE SOUTH EASTERN STATES.

Mr. M. G. L. Roberts, of Chattanooga, Tennessee, as a result of much effort, has obtained the following information concerning Mutuals in the south eastern states.

There are three Mutual companies in Kentucky, carrying \$10,000,000 insurance and having more than \$500,000 admitted

assets. There are seventeen assessment companies carrying \$25,000,000 in risks, and having more than \$250,000 in admitted assets. The Mutuals in that state do not seem to be satisfied with the laws. There appears to be over taxation and restrictions of territory.

Tennessee has two state Mutuals, the German, of Memphis, and the United States, of Chattanooga, with \$25,000 assets and about \$2,500,000 insurance. There are also six assessment insurance companies, with \$10,000 assets and \$2,500,000 insurance. The Mutual Insurance laws of Tennessee are not satisfactory to the companies which are limited in territory and in risks. A state association has been formed of which over half of the companies in the state are members and the outlook for improved laws in the near future is very hopeful.

Alabama has no Mutual Companies and no laws permitting the organization of such companies.

Georgia has some ten or fifteen Mutual companies but as they are not required to report to the insurance department no statistics are at hand. All these companies seem to use a mixture of methods, the style of business being somewhat along the joint stock line with a profit sharing feature. They are furnishing a large amount of insurance at cost, thus attaining the object of the Mutuals by a somewhat roundabout process. Doubtless the time will come when the conditions will be more favorable.

Florida, like Alabama, has no Mutual companies, and no law permitting the organization of any.

Mississippi seems to have two or three, possibly more, Mutual companies, but I have never been able to get hold of any satisfactory reports from that state, either as to the companies, or the Mutual laws.

Virginia has several Mutual companies, one or two old, well established, very strong companies. The Insurance Department of that state does not issue any report so that statistics are not available.

West Virginia has a few Mutuals, but they obtain their authority to do business from some county official, County or Probate Judge, and the Insurance Department can give no information about them.

North Carolina has several Mutuals, and some mixed, that is, stock or guaranty fund Mutuals. The companies in that state seem to have done fairly well but I have been unable to gather definite information about them.

South Carolina has two or three companies, but I cannot get statistics. Since this was written several localities have

taken steps to organize mutuals but only two or three have begun business and of these no particulars can be learned.

#### ARKANSAS.

Arkansas reports several Mutuals which seem to be doing a very good business. Their assets and risks are as follows:

Premiums notes .....	\$ 162,307.88
Cash and other assets .....	91,257.66
<hr/>	
Total assets .....	253,565.54
Total risks .....	11,482,372.00

or, \$2.20 on the \$100.

A new Mutual is reported, the Dixie Mutual Fire, at Helena. There are also five Farmers' Mutual Aid Societies with total risks of \$339,759.00. These are said to be giving good satisfaction. The total Mutual risks amount to \$11,822,131.00. In all there have been two failures in the state.

The laws of Arkansas have some peculiarities, and the Mutuals of the state hope for changes. At present they are hampered by troublesome restrictions and compelled to follow too closely in the footsteps of the old line companies.

C. S. Collins of Little Rock furnishes the following:

When the Anti-Trust Law passed the Legislature last spring, after determined opposition lasting through years, not only on the part of the Trust Magnates, but especially in the face of the active opposition of the Old Line Insurance Companies; those companies as usual taking the lead as the representatives of all other trusts, resorted to their usual tactics and through their retained attorneys sought to defeat the law in the courts. Having failed they withdrew from the state and have been constructing subterfuges whereby they can hold on to the business by organizing dummy Stock Companies in the state, and reinsurance their work out of the state and thus, by indirection, do the business. In this procedure, as might be expected, the same old methods of slander and opposition have been resorted to in almost every conceivable form in order to destroy the credit not only of the Mutual Companies but every form of local organization, for these gentlemen deny the right of any people to do business except by their permission, and thereby prove conclusively their adherence to the spirit of monopoly. In the meantime, another enactment (procured largely by the stealthy influence of local representatives of the Old Lines) has prevented the multiplication of Local Mutuals by making it too burdensome on individuals. The old companies have pushed business and have largely increased in volume, while

quite a number of Local Stocks have been formed and between them the business demand is being quite as well taken care of without the down East and European jumbos as it was with them. Rates have been somewhat lowered all over the state. It is a singular fact, observable not only in Arkansas but in every other state where effective legislation has been attempted to curb the rapacity of Commercial combinations, the Insurance question has been used through the Jumbo Companies as a club to terrorize the people and prevent them from doing anything that means anything but some "make believe". As a matter of fact the insurance question is not the leading question in the law. It only attracts attention and produces that impression by the roar set up by the pigeon stools.

As a matter of fact the Arkansas Anti-Trust Law, while awkwardly drawn, means something; and, if made a model and improved upon by all other states, would put an end to Trusts, or land a few thousand big thieves in the penitentiary instead of pretending to execute law against crime by sending Cuffy to the rock pile for stealing a pig when hungry. The section in it making it a crime for any corporation or person to use money criminally to break down competition by selling under cost, suggests the Standard Oil and beef trusts and is worth its weight in gold and worthy of emulation in every state where the people hate such cruel and disreputable methods.

#### CALIFORNIA.

California has ten Mutuals which at the date of the last attainable report, had at risk \$6,619,588, an enormous gain over the previous figures, and under the circumstances, remarkably encouraging.

The Mutuals in California are hampered by adverse legislation and annoyed by unfriendly officials. Nevertheless they are growing in business at a rapid rate and there are movements which will result in the forming of new companies. There is a complaint of high rate charged by other companies. A law, somewhat friendly to the Mutuals, was passed at a session of the legislature sometime since, but was promptly vetoed by the Governor. That state of affairs will not last long.

The Mutuals are rapidly increasing in strength and will soon overpower the opposition.

#### COLORADO.

The Superintendent's report for 1904 gives the following figures:

There are seven Mutual Fire Insurance Companies with a total risk of \$8,466,776. The average premium rate for all

companies was \$1.49, for Mutuals \$1.20, showing a decided advantage in economy for the Mutuals.

Conditions are not yet favorable in all parts of the state. There is but one purely Farm Mutual, and it is doing but a moderate business. Many of the counties of Colorado are rather sparsely settled and while the best farms have good buildings there are regions where many structures are makeshifts to be replaced by substantial structures in the future, that is, if the mine holds out. Year by year, the conditions in Colorado are improving. The Mutuals are increasing their business, and while county mutuals are yet in the future, the State Mutuals are answering the purpose perfectly well.

Insurance companies must not take any one risk exceeding five per cent of their paid up capital. The superintendent recommends the carrying of reserves by all companies. The legislation relating to Mutuals consists of two or three paragraphs. The workings seem to be controlled by the general corporation laws of the state.

#### CONNECTICUT.

This state has at the present time, sixteen mutual companies. One of the number, the Middlesex Mutual of Middletown is licensed to do business in the state of Massachusetts. There are only four that write outside of their own immediate locality, as follows:

	Assets.	Surplus.
Hartford County Mutual .....	\$932,901.00	\$834,157.06
Litchfield Mutual .....	110,504.42	48,224.63
Middlesex of Middletown .....	907,282.06	681,295.89
New London County Mutual .....	222,876.40	149,948.42

Others have been fairly successful in their limited territory.

The total amount at risk in Mutual Companies in this state is \$106,037,079. The total assets are \$2,283,318. All of these companies write on a cash premium basis but do not pay dividends to the policy holders as do Massachusetts Companies. In most cases their rates are the same as stock companies, although in a few localities there is a slight differential rate in their favor, by agreement with the stock companies. These companies confine their underwriting to the following classes: Dwellings, private stables and farms, with the exception of the Middlesex and New London, which occasionally write small lines on mercantile buildings.

The Mutual Assurance Company of the city of Norwich was chartered in 1795 and is still doing business, and it is stated that its first policy is still in force. The laws of Connecticut

are fair and reasonable, being the result of many years experience.

As all Companies are chartered by the General Assembly and each is governed by the peculiar provisions of its own charter, there is very little in the statutes especially relating to Mutuals.

These organizations seem to be doing a steady and successful business.

#### DELAWARE.

Delaware is one of the banner Mutual states. The following are the statistics.

5 Mutuals, one of which operates in another state, all old established.

4 Joint Stock companies, three only reported, one a new organization.

5 Mutuals, total assets ..... \$ 2,754,669.36

5 Mutuals, total risks ..... 26,805,490.08

3 Stock, total assets ..... 404,208.77

3 Stock, total risks ..... 5,847,997.00

Assets per \$100, Mutuals, \$10.68; Joint Stock, \$5.85.

Oldest Joint Stock 1870.

Youngest Mutual 1877.

From this it will be seen that the Mutuals are far in the lead. They appear to have been chartered for periods of years by the legislature. These charters have been renewed from time to time as they expired. The insurance laws are fair. They are very few restrictions on the Mutuals.

The Farmers' Fire Mutual of Wilmington gets all its business through its directors and the plan works well. They take deposit notes, five per cent of which is annual premium. They appear to have all the business they care to handle. They have never assessed a deposit note beyond the annual premium.

The New Castle Mutual Insurance Company does business along the same line and is fully as successful. They do not solicit business, they get all they want without. They say "Mutual Insurance has been very successful in this state. We have two companies in this city. Both have been in business fifty-five years. They have the cream of the business, their annual profits average about twenty-five percent to the policy holder. There never has been a failure of a Mutual in the state."

These companies use their charters as constitutions and by-laws, what is lacking is supplied by the general corporation laws of the state.

There are three other Mutuals, one of which is under control of the Patrons of Husbandry. Their statements all show a good business.

Delaware has a valued policy law but it does not seem to produce the desired results. One correspondent calls it a nuisance.

### IDAHO.

Idaho has three Mutuals. The Bingham County Farmers' Mutual of Idaho Falls, total risks about \$50,000, the Farmers' Mutual Fire Ins. Co., of Lalah County, of Troy Idaho, risks about the same. Both of these are county Mutuals, and have increased their risks since this was written.

There is also the Idaho Mutual Co-operative Insurance Company of Boise, Idaho. This has over a million at risk.

W. R. Hyatt, the Secretary, writes as follows:

"Our Company, which was organized on the 10th day of May, 1903, has proven a decided success. We have now over one million at risk and have paid in the neighborhood of \$5,000 losses since the first of January and met all of our expenses promptly, all of which we have done on 50 per cent of the board rate which we collect at the time the insurance is written. We have not levied an assessment and do not anticipate that we will have to in the near future.

"We have organized under a special law passed two years ago by our state legislature which permitted our organization, which law, by the way, is one that was formed by a committee of your National Association and which was brought here from the office of the Farmers' Mutual Insurance Company of Lincoln, Nebraska.

"We have just been successful in the Supreme Court in a suit which we brought to establish our position in regard to the payment of 2 per cent tax on the gross receipts of the company, less the losses and returned premium, which is imposed upon all other insurance companies under the general insurance laws of the state. We, however, were successful in the case and the Supreme Court held that we did not have to pay the tax."

### THE NEW LAW.

An act to authorize the organization of Mutual Co-operative Insurance Companies to insure both personal and real property against loss by fire, lightning, tornado, cyclone, windstorm, hail and the fidelity of persons and to regulate their conduct.

Be it enacted by the legislature of the state of Idaho.

Section 1. Organization. Any number of persons residing in this state who own personal or real property of not less than

\$100,000, in value which they desire to have insured may associate themselves together for the purpose of mutual co-operative insurance against loss by fire, lightning, tornado, cyclone, wind-storm and the fidelity of persons, and form an incorporated company for such purposes and issue policies. Such companies shall embody the words "Mutual Co-operative" in its name.

Section 2. Recording. The articles of incorporation of such company shall be filed with the Insurance Commissioner for examination. If by him found to be in accordance with the provisions of this act, and the name of such company is not similar to the name of any other insurance company organized in this state, he shall thereupon deliver to such company a certified copy of the articles of incorporation, which on being recorded in the office of the Recorder of the County where the principal office of such company shall be located, and a copy thereof, certified by the County Recorder, filed with the Secretary of State. The Secretary of State must then issue to the corporation, over his official seal, a certificate that a copy of the articles containing the required statement of facts has been filed in his office; and thereupon the persons executing the articles, and their associates and successors, shall be entitled to transact business and issue policies of insurance under the corporate name stated in the articles, and for the term of fifty years, unless it is in the articles of incorporation otherwise stated, or by law otherwise specially provided.

A copy of any articles of incorporation filed in pursuance of this act and certified by the Secretary of State must be received in all courts and elsewhere as *prima facie* evidence of the facts therein stated.

Section 3. Members. All persons and corporations, municipal or otherwise, who effect insurance in any company organized under the provisions of this act shall thereby become members of such company and continue to be during the period their insurance is in force and no longer. All persons so insured shall give their obligation to such company in an application binding themselves, their heirs, executors, administrators, successors or assigns to pay all legal assessments made upon them by such company. They shall also at the time of effecting insurance pay such an amount in cash as is provided for in the by-laws, but no Company shall organize or transact business that does not provide for a reasonable amount of cash to be paid down at the time the insurance is taken in proportion to the risk that is to be carried. The application of any corporation or municipality for insurance in any company shall be signed by the officer or officers authorized to sign ordinary contracts of such corporations or municipalites.

Section 4. Meetings. An annual meeting of such Company for the purpose of electing directors as provided in the articles of incorporation, shall be held in each year at the principal office of such Company of which all members shall be notified in such manner and form as the by-laws shall provide. Special meetings may be held by order of the president upon the written request of a majority of all directors with a like notice. Each member may vote by ballot for as many persons as there are directors to be elected.

Section 5. Directors. The Number of Directors shall not be less than six or more than twelve. Of those elected at the time of the organization of such Company, one-third shall be elected for one year, one-third for two years and one-third for three years. At each annual meeting thereafter a number equal to one-third of the whole number of directors shall be elected for three years or until their successors are elected and qualified. Such directors are to manage the affairs of the Company. Vacancies in the Board of Directors may be filled by the remaining directors, and such Board of Directors, or a majority of them, when legally convened at the principal office of the Company shall be competent to exercise all of the powers created by this act.

Section 6. Officers. Immediately after their election the Directors must organize by electing a President, who shall be one of their number, a Secretary and a Treasurer. They shall perform the duties enjoined upon them by law and the by-laws of the corporation.

Such officers shall receive such compensation and give such bonds as the by-laws provide or the Board of Directors determine.

The Board of Directors shall have power, by two-thirds vote, to remove any officer for just cause. They shall also fill any vacancies that may occur from any cause.

Section 7. Agents and Employees. The Directors of such Company may appoint agents, clerks, adjustors and other employees, allowing them such compensation and exacting from them such bonds as the Directors may deem proper. The Board of Directors may appoint an Executive Committee to whom they may delegate the minor powers and authority vested in such Board.

Section 8. By-Laws. The members of such Company or the Board of Directors, as may be provided in the Articles of Incorporation, shall make such by-laws not inconsistent with this act as they may deem necessary for the management of such Company. All amendments of the by-laws shall be fur-

nished to the members in such manner, form and time as the by-laws shall provide.

Section 9. Suits At Law. If any member of such Company for a space of thirty days after the written or printed notice of assessment has been mailed to him or her, post-paid, and directed to the post-office as stated in the application for insurance, or as the same may have been thereafter changed to and recorded with the Company, shall neglect to pay the sum assessed, such Company may sue for and recover such amount and costs. Suits at Law may be brought against such company by a member or members thereof for loss sustained if payment is withheld after such loss becomes due. The officer or officers of such Company who shall willfully neglect or refuse to perform the duties imposed upon them by the provisions of this act, shall be liable in their individual capacity to the persons sustaining such loss.

Section 10. Territory. It shall be lawful for such Companies to insure property only within this state until such time as such Company shall have at least \$5,000,000.00 at risk, and then the Board of Directors may determine in what state or states, other than the State of Idaho it shall do business and apply for admittance to such other state or states. Any Mutual Co-operative Insurance Company organized under the law of any other state similar in form and in substance to this act may be admitted to do business in this State by the Insurance Department of the State upon making a showing that they are legally incorporated under the laws of their own state and have complied with the conditions of such law, have at least \$5,000,000.00 of insurance in force, and the proper Insurance Commissioner of such state shall certify that he believes such Company solvent, doing a good business, officered by men of integrity and standing, and he believes they are entitled to the confidence of the public, and upon such Company procuring a request and application for membership of one hundred persons, citizens of this state having property that they desire to have insured, and paying a fee of \$25.00 to the Insurance Commissioner of this state.

Provided always that the Insurance Commissioner and the laws of the state, where such company applying for admission is domiciled, shall grant to the Mutual Co-operative Insurance Companies of this state, organized under this or similar laws, like rights and privileges under in substance the same rules and restrictions.

Section 11. Policies. Such Companies may issue policies on all kind of insurable real and personal property as herein

provided against loss or damage by fire, lightning, tornado, cyclone and windstorm and the fidelity of persons for any length of time as may be determined upon by such Company in its by-laws. It shall not issue policies on any one risk or hazard to exceed \$1,000.00 until there is \$300,000.00 insurance in force, when policies of \$2,000.00 may be issued; or issue policies for more than \$2,000.00 on any one risk until there is \$1,000,000.00 insurance in force, when policies of \$3,000.00 may be issued; or issue policies for more than \$3,000.00 on any one risk until there is \$2,000,000.00 insurance in force, when policies may be issued in the discretion of the Company. Provided no real property shall be insured for more than three-fourths its value.

Should the amount of insurance decrease below any of the figures above enumerated, the amount of the policy must be correspondingly reduced upon its renewal or within three months from the time that the amount of insurance falls below the foregoing figures.

All policies shall be signed by the president and secretary, and each policy holder shall be furnished with the by-laws of the Company. Should the amount of insurance of any Company created under this act decrease below \$100,000.00, the president of such Company shall at once call a meeting of the members to consider the matter of disorganizing.

Section 12. Assessments. All assessments shall be determined by a proper classification and rating of the property insured, so that each member will be assessed according to the greater or less risk of the property insured to the hazard insured against.

An assessment may be made on the members due and payable within thirty days thereafter to enable the Company to provide for loss and expenses necessary in the conducting of its business whenever the Board of Directors so determine. No assessment shall be made on a member for liabilities incurred prior to his or her membership. Any member may be excluded from the benefits of insurance during all the time in which he or she may be in default of payment of an assessment, and the acceptance of such assessment after the same has once become delinquent shall not in any manner make the Company liable for any loss or damage that may have occurred during the period that such policy was suspended. Any member shall not be liable directly to any other member for such other member's loss or damage, but the liability of a member shall be solely and exclusively through the channel and process of an assessment and the amount of such assessment shall be only his pro-rata share in proportion to the amount of insurance carried and the rate on the same of all losses and expenses, making reasonable

allowance and deduction for uncollectible and unpaid assessments.

Section 13. Payment of Losses. Losses shall become due and payable in sixty days after their adjustment. Said adjustment shall be made within sixty days after losses occur.

Section 14. Arbitrators. In the event of a dispute between the Company and a member respecting whether there has been a loss, and the adjustment of the same, the matter shall, at the request of the Company, or such member, be submitted to arbitrators, one of whom shall be selected by the Company and one by the member, and such two so chosen shall select a third, all of whom shall be disinterested and shall take and subscribe to an oath to that effect. A decision of a majority shall be final and binding on all parties.

Section 15. Cancellation. Any member of such Company may withdraw therefrom at any time by giving the Company notice thereof in writing and paying his or her share of all claims or liabilities for losses or expenses then existing against the Company, surrendering his or her policy and paying such cancellation fee as may be provided, not exceeding \$1.00; and the Board of Directors may provide, in case the sum collected at the time the member takes out insurance is such as to justify for a reasonable short rate return premium, and the action of the Board of Directors in that respect shall be final; but no member, his or her heirs, executors, administrators or assigns, can avoid liability to such Company for their pro rata share of the unpaid claims against the Company accruing while a member. Such Company may for good and sufficient reasons apparent to it, cancel any policy by giving the member notice to that effect and releasing him or her from further assessments and thereupon such member shall send in his or her policy to the Company.

Section 16. Bodies Corporate. Such Companies shall be deemed bodies corporate with succession and shall possess the usual powers and privileges and be subject to the usual duties of corporations within the limitations of this act, and such corporations may purchase, own, hold, lease, encumber, and convey such real estate severally or jointly with others as may be necessary for its present and prospective use as offices and place of business.

Section 17. Annual Statement. It shall be the duty of the president and secretary to prepare annually, under oath, a full and complete statement of the condition of the Company on the 31st day of December each year, and present the same at the annual meeting of the members.

Section 18. Certificates. It shall be the duty of such Company to file an annual statement with the proper insurance

department of this state not later than the 31st day of January of each year, on blank furnished by said insurance department. Such department, if it thinks necessary, or one deputized by it, having no interest in an insurance company and unprejudiced, may make an examination into the affairs of such company and for such purposes shall have access to all the books and files of the company, and may examine the officers and other witnesses under oath. If such Company is doing business in accordance with and under the provisions of this act, is solvent and properly managed, the insurance department shall furnish such company and its authorized agents a certificate stating that such Company has complied with the provisions of this act and is authorized to do business for the ensuing year unless certificate is sooner revoked. If upon such examination it shall appear to such department that the condition of such Company does not justify its continuing in business, it may apply to the District Court of the County where the principal office of such Company is located for an order requiring such Company to show cause why it should not be closed. For examining the Company's annual report and issuing certificate it shall be paid \$..... and for each agent's certificate \$.....

Section 19. Penalties. It shall not be lawful for any company or agent to do business without authority given them by the Insurance Department. Any person who shall act or attempt to act for or on behalf of any company in any capacity as agent, officer or otherwise, in the procuring or attempting to procure or solicit business without said Company having first complied with the provisions of this act, (except soliciting the original signatures to the articles of incorporation and applications for membership necessary to organize a company), shall, on conviction thereof, be found guilty of a misdemeanor and be fined in any sum not exceeding \$500.00 or committed to the county jail not exceeding six months, or both such fine and imprisonment.

Section 20. Accepting this Act. Any mutual company now doing business in this state under any of the provisions of the law thereof, with the written consent of a majority of the members, may accept the conditions of this act and thereupon be governed by it. Before such company shall be entitled to the benefits of this act, it shall file with the Insurance Department its articles of incorporation and by-laws and record a certified copy thereof as provided in Section 2 of this act.

Section 21. All acts and parts of acts in conflict with the provisions of this act are hereby repealed in so far as they effect any Company or Companies hereafter organized under or taking advantage of this act.

Section 22. Whereas an emergency exists this act shall take effect and be in force from and after its passage and approval.

F. L. Armstrong, State Agent, writes as follows:

In regard to the matter of getting our law through, will say that while the present management of our company were the only ones who worked on the bill in the Lobby of the Seventh Legislature, nevertheless, Judge Coffin deserves great credit both for his service in drafting the law, and also for his assistance in securing the signature of the Governor for the same. The Judge rendered us every possible assistance in his power and would have done more, had it been necessary. He very thoughtfully telegraphed the Governor requesting his signature to the bill, which fact, I think, was of very great assistance to us. He is ever ready to advise us and assist us in every way possible since our organization and that we feel very grateful to him for the same.

At the National Convention of Mutual Insurance Companies held in Indianapolis the Legislative Committee who had in charge the drafting of a law which it was proposed to pass in the various states reported fully. And thereafter the State of Idaho during the session in 1903 passed a statute which is nearly identical with the law proposed by the National Convention.

#### ILLINOIS.

The report of the State Superintendent for 1904 gives the following statistics of the Mutuals.

12 District Fire Companies, total at risk.....	\$ 24,361,468.44
53 County Fire Companies, total at risk.....	58,163,410.54
144 Township Fire Companies, total at risk.....	92,475,710.32

Total .....	\$175,000,589.30
4 County Windstorm Companies .....	\$ 779,894.00
7 District Windstorm Companies .....	9,439,623.00

Total .....	\$185,220,106.20
There are also 11 State Mutuals with risks of .....	\$91,655,343.60

Total .....	\$276,875,449.60
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#### THE ILLINOIS MUTUAL SYSTEM.

Illinois has no distinctive mode of operating different from that of most of the central western states, so that while I speak more directly of Illinois, yet what is said of our great prairie state, will apply to a large proportion of the companies of the middle west.

In Illinois we have at present 214 Farmers' Mutual Companies, besides some eight or ten Mutuals whose business is limited to some special industry. Of the Farmers' Mutuals some ten or twelve are organized under special charters granted directly by the Legislature. All the others are operating under some one of the special acts of the Legislature.

To understand the peculiarities of these statutes, it must be remembered that every act or amendment thereto, has been secured by the Farmers in a contest with the lobby of the old line companies. And it has been only an occasional session that would grant us anything, and even then it would be in a compromise or trade.

The line of attack of the Old Line Lobby, when they saw that we were to be favored with favorable legislation, would be to so restrict our territory or the functions of the company, as to make them failures, or of little consequence.

In spite of this organized opposition, we have secured a fairly good code of laws, and our growth and present standing in public esteem, under such unfavorable circumstances is really phenomenal.

The very limitations and restrictions placed on the farmers Mutuals, has made them more purely mutual than can easily be found under any other system that I know of.

The form of law most usually used is what is known as the "Township Mutual Insurance Act." Under this act any number of persons not less than twenty-five, and having property aggregating not less than \$50,000 which they desire insured, and located in not exceeding twelve townships, may organize and conduct an insurance company on the assessment plan.

Such company must confine its business to farm property, farm churches, school houses and town halls. The term of insurance cannot exceed five years. Power is given the directors to levy assessments, prorata, on their members for actual losses and legitimate expenses only. And it is made obligatory on them to do so. No provision is made for the creation of a permanent fund, and under its operation no fund of any magnitude can be accumulated. The whole capital stock of such companies consists of their power to levy assessments on their members for actual expenses and losses. A sworn report is required to be made once a year to the Superintendent of Insurance as a condition for the renewal of license to do business.

These are the distinguishing features of the "Illinois Plan," and while the plan has its disadvantages, it also has much that may be said in its praise. It would be hard to conceive of a more purely mutual plan. Its management is along simple democratic lines, its members all have a vote in propor-

tion to their insurance. There is no temptation for treasurers to abscond, or officers to conspire to defraud. Every member may know where every cent collected goes to, both from the Secretary's annual report to the Company, and from sworn report to the Superintendent of Insurance, which is published for general circulation.

A. T. STRANGE,  
Walshville, Illinois.

#### INDIANA.

The progress of Mutual Insurance in Indiana is retarded by restrictive laws. Laws will probably be passed allowing the Mutuals to cover more territory and also requiring them to report to the State Department of Insurance. Then the disadvantages of the present chaotic condition will be done away with. The companies are all doing good work but their sphere of usefulness should be extended.

The Indiana Mutuals have a wide awake and effective state organization. Its membership is not what it should be. This is to be accounted for by the fact that many of the Indiana Mutuals are old established and successful. They cover their field, do all the business they wish and give excellent satisfaction. They have very little need for outside help and do not care to trouble themselves about state conventions and such matters. While this is true, if all the Indiana Mutuals were allied the working force of the state would be materially strengthened and the influence in favor of co-operation would be greatly increased, and their combined force would enable them to procure almost any legislation they desired.

Some of the companies have a novel feature, and one that is evidently useful. They issue to members a short time insurance on harvested crops. Some companies have a special policy and others use slips to be attached to the policy already in force. In either case, they run as long as needed and then a settlement is made with the company.

Many companies are not even incorporated and cannot sue and be sued, but all seem to be successful and no failures among them have been heard of for several years.

A number of the Farm Mutuals of Indiana are old organizations and are still working under their original charters. There seems to be very little uniformity. Mr. H. L. Nowlin, of Lawrenceburgh, the Secretary of the Farmers' Mutual Insurance Companies Union of Indiana says:

"I send you by this mail a report of the last annual meeting of our State Ins. Union and also a list of all the companies

in the state who do not belong to the Union so far as I have been able to ascertain. No reports are made to any authority of the state and I know there are fully twice as many Mutual Companies in Indiana as I have on this list. I have exhausted every means that I know of to secure names of companies but have failed in part. Companies are organized in so many different ways and have so many methods that I can give you but little information."

The report contains statistics of twenty-five companies having a total risk of nearly forty-eight millions. It is an inside estimate that this is only a fourth of the Farm Mutuals insurance of the state. The Class Mutuals have over thirteen millions at risk.

#### IOWA.

Iowa is another state in which the Mutuals are steadily absorbing the fire insurance business at a rate which will soon bring them to the front rank.

The Mutuals of Iowa have made a stubborn fight and have made good progress. They have been annoyed by misrepresentation from the opposition and by the odium arising from counterfeit mutuals at home. But their tribulations are past, and the Mutuals now have the confidence of the people and are getting their business.

The following from the address of the Hon. J. A. Swallow, before the State Association of Mutual Insurance Companies, November 1904, is an excellent account of conditions in Iowa.

At the present time there are 154 county mutuals, 19 state mutuals doing a fire business, three state mutuals doing a tornado business, thirteen mutual hail associations, and one association insuring plate glass against accidental breakage other than fire; thus we see that we have in this state 190 incorporated mutual insurance associations operating under Chapter Five of the Code.

From President Brook's address which he delivered before this association last year we are permitted to quote that in 1888 the insurance in force in mutual associations in this state amounted to \$49,735,098, and that in that year there were 105 associations in the state. When we compare this with the 190 associations in the field this year we wonder whether this great increase of associations is able to carry the amount of insurance in proportion. We find by the last auditor's report that the amount of insurance in force in strictly mutual associations

had increased from \$49,735,098 in 1888 to \$392,698,481 and that the average amount carried in 1888 by each association was \$474,384, while on January 1, 1904 the average amount carried by each association was \$2,082,624. This was a phenomenal growth and one that every mutual man in the state may feel proud of.

Taking our auditor's report as our authority and eliminating the county associations that write Tornado and those that write Hail business and we find that the average cost of county associations writing nothing but a fire and lightning business has been a little less than two dollars per thousand of insurance each year. Taking this as a basis it is safe for us to estimate that the members of the county associations have saved \$525,000 each year and as the state associations have cost but 75 per cent of board or stock company rates the members of mercantile mutuals have saved \$117,000 making a saving to members in one year of \$642,000.

Mr. Swallow also writes that twenty companies have organized as stock mutuals in this state; At the present time five of them are still doing business under that law; four have reorganized as Capital Stock Companies, and eleven have failed; Three companies organized under Chapter Five but did a Chapter Four business and these have also failed; two of the mutuals that were organized under Chapter Four and that are still doing business under that chapter are making strenuous efforts to change to stock companies; There have been twenty-five Capital Stock Companies organized in this state with capital to the amount of \$2,800,000; of these twelve are still in business while thirteen have failed and quit business, those that failed represented a capital stock of \$1,600,000. As we noticed before three Companies organized under Chapter Five but did a chapter four business, these companies were The Iowa Mutual Fire of Des Moines; Mutual Fire of Des Moines; Millers and Manufacturers Mutual of Des Moines.

The Fremont County Mutual with headquarters at Anderson commenced an organization and issued policies before they had sufficient insurance in force and were compelled to quit business. The Montgomery Mutual of Red Oak also commenced business in the same way and had the same ending. The case of Weiderman vs. The Montgomery County Mutual was an outgrowth of this association.

There have been organized (aside from those enumerated above) 154 County mutuals, 19 state mutuals doing a fire business, three state mutuals doing a tornado business, thirteen mutual hail associations, and one association insuring plate

glass against accident. All these associations are still in the field and doing a good healthy business. We have often made the statement (and it has never been contradicted), that there has never been a failure of a strictly mutual association in this state, organized and operated strictly under the law of Chapter Five of the Code.

With such a record we can see no good reason why other states should bar mutual associations from doing business.

#### KANSAS.

16 Mutual Fire, Lightning and Tornado Insurance Companies, risks .....	\$ 60,268,230
13 Mutual Hail Companies, risks .....	4,114,287
Total risks .....	\$64,382,517

The early days of Kansas were days of storm and of war. It may be said that she succeeded in advertising herself in every civilized country in the world. Those who took up claims or went into merchandising were generally too busy to pay much attention to outside matters, and so the schemers had full sway, checked only by an occasional dose of frontier justice, administered when conditions became intolerable. Charters were issued by the thousand. Some of these institutions were well planned, many were theoretical ventures, and some were pure frauds. The early history of insurance in Kansas, is colored with the same tint. Nearly every kind of insurance has been tried at sometime or another, and like the companies in other lines some have been successful and others have failed or retired. Sixteen Mutuals and two joint stock companies, one of which was organized last year, still survive. The record of insurance, is, however, no worse than that of organizations in other lines.

The Guarantee Fund, as originally provided, was not acceptable to the Mutuals. It was practically a joint stock annex. At the session of 1905 this law was amended as follows:

Section 1. "Section 1 of Chapter 130 of the Laws of 1885 is hereby amended so as to read as follows: Section 1. Any Mutual fire and tornado insurance company organized under the laws of this state, having done business not less than two years and having at least one million dollars at risk, and premium notes amounting to not less than twenty-five thousand dollars, may for the better protection of its policy holders create a guarantee fund, with the privilege of increasing it from time to time."

Section 2. "Section 2 of Chapter No. 30 of the Laws of 1885 is hereby amended to read as follows: Section 2. Any such insurance company may create such a guarantee fund by setting apart not more than fifty per cent of the excess of its funds over and above the ten percentum reserve required by law and the amount of all current liabilities for losses and expenses, and such funds shall be invested in mortgages on real estate worth at least double the amount loaned thereon, or in the bonds of any county, school district, or incorporated city issued under the laws of this state at their market value, or in United States or state bonds at their market value. The guarantee fund of mutual companies shall be liable for the claims against the company only after all other resources have been exhausted.

Section 3. "Section 4 of chapter 130 of the Laws of 1885 is hereby amended so as to read as follows: Sec. 4. Mutual fire and tornado insurance companies having a guarantee fund as provided in this act to the amount of twenty-five thousand dollars may issue policies of insurance against loss or damage by fire, lightning, tornadoes, and cyclones, on dwellings, barns, sheds, outbuildings, hay, grain, wool, and other products, cribs and their contents, live stock, wagons, carriages, harness, farm implements, machinery, furniture, household goods, wearing apparel, provisions, musical instruments, and libraries, being upon farms as farm property, or in dwellings, or in accompanying outbuildings, that constitute detached risks in towns and villages; but shall issue no policy to exceed three thousand dollars on and in any one building, or buildings that are exposed one by the other, and situated in the state of Kansas. A detached dwelling as understood in this section shall be construed to be a dwelling not nearer than five feet to any other building. Mutual companies having a guarantee fund of one hundred thousand dollars or more may issue policies of insurance on the above described kinds of property situated in or out of the state of Kansas."

Section 4. "Section 5 chapter 130 of the Laws of 1885 is hereby amended so as to read as follows: Sec. 5. Mutual fire and tornado insurance companies having a guarantee fund of not less than twenty-five thousand dollars may accept in payment of premiums on their policies cash or time notes payable at such time and place as provided in said note or notes, payable in assessments, but the members of said companies shall not be liable to the companies or any other person to exceed the amount of their premiums or premium notes and interest due thereon."

Mutual Live Stock Companies are also provided for.

Hail companies pro rate when the premiums are not sufficient to pay the losses.

The state has a valued policy law.

#### MAINE.

The conditions of Mutual insurance in the State of Maine are the most peculiar of any state in New England, inasmuch as it has practically no insurance companies that are writing a general business, such as the Mutuals in the other New England States are doing at present.

December 31st, last, there were 49 mutual companies organized or incorporated under the laws of the state of Maine, transacting business in that state. The history of domestic mutual fire insurance companies in Maine has been that when they confined their business to a limited area, usually one or two towns, or sometimes part of several towns, and the business has been under the supervision of a Board of Directors scattered over this territory, the companies have been successful and prosperous, while disaster has overtaken practically every company that has attempted to do a general business by agencies.

Three of the 49 companies mentioned are what is commonly known in Maine as "Grange" companies, for the reason that their membership is confined to the members of the Order of the Patrons of Husbandry. Two of these companies are doing a general business throughout the state, while the third and the new company, I think, confines its operations practically to Aroostook County.

They are all doing a successful and prosperous business.

The Mutual Fire Insurance Company of Saco has a surplus of about \$90,000, and does business on substantially the same rates as the stock companies. I have the impression, however, that its business is confined exclusively to real estate, and that no personal property is, under any circumstances, insured.

The Dirigo Mutual of Gorham is writing a portion of its business upon what is called the cash plan, charging substantially the same rate as the stock companies, and taking a premium note for an equal amount. This company has been in operation but a few years and has written a large volume of business, practically all of which, until within the past year, has been upon the note plan. Under the Maine law a company must take a premium of at least 5 per cent, and such part of it as the directors may determine must be immediately paid and endorsed thereon, unless the company elects to charge a stock rate and



**CHAS. S. GRISSEN, McMINTNVILLE, OREGON.**

Mr. Grissen is the President of the Oregon Fire Relief Association. It has been in existence long enough to be thoroughly tested and has now the confidence of the people of Oregon. It is Mr. Grissen's pride and to it he is devoting the energies of his life.



**J. Y. M. SWIGART, LINCOLN, NEBR.**

Mr. Swigart first engaged in Insurance work in Iowa. In 1891 he organized the Lancaster County Mutual, in Nebraska and later the Nebraska Mutual and became the secretary of both. In 1897 the town law was passed and the Dwelling House Mutual was launched with Mr. Swigart for secretary, he having retired from the County Company after six years of faithful service. Mr. Swigart is now retired, but has not lost his interest in Mutual Insurance.

take a premium note for an equal amount, in which case it is required to maintain as reserve 50 per cent of the cash premiums on its policies in force. The bulk of the business transacted by these companies in the state of Maine is therefore upon what is known as the premium note plan. These notes vary in amount from 5 per cent to 15 per cent, seldom, however, running over 10 per cent. The principal source of revenue of these companies is their policy fees, the cash premiums or percentage of the premium note which is paid at the time the policy is issued, and their assessments upon the notes of such amounts as are necessary to pay the losses and expenses.

Patrons of these corporations are securing their insurance at surprisingly low rates, and, as indicated in the opening of this communication, the business has usually been successfully conducted. Some of the companies transacting business on the note plan have not made an assessment upon the policy-holders for more than fifteen years.

These companies, December 31, 1904, had at risk, \$9,381,880. They collected during the year in cash premiums, \$35,680.38 and for policy fees, \$3,370.30. They assessed their policy holders, \$59,668.64, and losses paid were \$79,277.62.

#### MARYLAND.

Corporations, in Maryland, are organized under a general law, subject only to such rules and regulations as may be necessary for the public safety. They are subject to strict supervision, but so long as they are safely managed they arrange business details to suit themselves.

December 31, 1903, the Commissioner of Insurance reported fifteen Maryland Insurance Companies, eight joint stock and seven Mutual. During 1904, one small joint stock company retired for reasons not given, four other joint stock companies and two Mutuals were put out of business by the Baltimore Fire.

That is the disasters among the old line companies were more than twice as many as those among the Mutuals.

One Mutual, the old Baltimore Equitable, paid conflagration losses to the amount of \$1,915,517, and this without interrupting its business in the least. It still has a surplus of \$489,230. The two Mutuals which failed were doing a large business in Baltimore. Statistics of their condition are not given by the Commissioner as their reports on file were burned in the great fire. The four joint stock companies would have been pronounced absolutely safe before the fire. Their capitals

were sound and they had each a good surplus. But they went under. The score at Baltimore is two to one in favor of the Mutuals, so far as Maryland companies are concerned. With regard to outside companies there were several wrecks among the joint stock companies. This is mentioned not so much as a matter of comparison with Mutuals, as to show that among the old line companies doing a general business no policy holder can be sure of safety unless he knows that the insurance is so scattered that conflagration losses are not possible.

When this fire occurred, one old line journal remarked that the Mutuals were gone for good and this statement was copied all over the country. It was uncalled for and untrue.

#### MASSACHUSETTS.

##### **BRIEF HISTORY OF MUTUAL UNDERWRITING, BY ROGER F. UPHAM.**

The circumstances out of which the mutual fire insurance companies of Massachusetts emerged may be stated as follows:

The frame character of the towns and small cities, which then was characteristic of Massachusetts, made the ravages of fire unavoidable. No hydrant or other protective system existed save the hand-bucket brigades, which were organized in many towns, notably in Worcester, and which provided their members with a leather bucket, a cloth bag, a bed-wrench, and a screw-driver. Whenever a fire was discovered the summons brought out the members, each equipped for fire service, the cloth bag serving to carry out breakable articles. These brigades were, moreover, something of the nature of a social club, at certain meetings, and as the necessity of providing something beyond the opening of public-spirited purses and the lending of strong, willing arms for rebuilding, became apparent, the logical sequence was to mass the hazards in a mutual agreement to bear, upon a certain consideration, the misfortunes of a community. Besides, mortgages required some form of insurance to serve as protection to the collateral, and this probably finally crystallized the Worcester Mutual Fire Insurance Company, the first outside of Boston.

At the beginning some mutuals charged a certain percentage, taking therefrom, say 5 per cent in cash and assessing on the balance as losses required, while others charged a cash premium upon agreed rate per cent, and to have the insured recognize, by note of hand, or by-law and policy agreement, an obligation for the same amount, or more, as the company's by-law might be, to be assessed in event of loss necessity. The term of insurance was 1-3-5-7 years, usually seven years upon

dwellings, at a maximum, shortened finally to five years, the maximum of today, and a term limited almost absolutely to residential property. The hazards were limited to fire and lightning; no wind, cyclone, or hail insurance being issued. The rates then as now were some higher than the stock rates. As an illustration, the rate on protected dwellings in stock companies being on an average \$7.50 on the thousand dollars for five years while the mutual rate is \$12.50 for five years per one thousand dollars, and on rated risks a differential rate is established over the stock rate, which will be mentioned later in this paper. The Massachusetts laws and state inspections have made no discrimination against the mutual system, but a spirit of fairness and impartiality has existed which has tended to far better results for the entire community than would otherwise have been possible.

The early practical history of mutual insurance had to do largely, if not mainly, with farming interests, and in the various counties mutual companies were formed (in all 30). With scarcely an exception they continue to the present, having been of immense benefit to the state, money savers to the policy holders, and a bulwark between the policy holder and what might prove otherwise an opportunity for extortion by other classes of companies.

The first forty or fifty years the field was almost entirely clear of competitors, and the pathway comparatively smooth. Farming was successful and town and city insurance grew apace, the mode of heating and lighting simple and safe-guarded by rigid care. Fires were rare and the underwriting margin therefore excellent. The Boston fire of 1872, following on the heel of the Portland conflagration, was the first warning of danger from congested lines of insurance in New England. The Massachusetts mutual companies had been great favorites in Boston—the area covered by the fire waste of large extent—the losses unparalleled, but the managers of the companies interested bravely battled with the exceedingly difficult circumstances and won out.

But at this point the history of mutual fire insurance in Massachusetts assumes a different cast. The possibility of an assessment was wrung in infinite changes to frighten policy holders from mutual ranks, and it took years before the people were really educated to see that the assessment bug-bear is one of the strongest supports of a mutual company, as it in reality makes a mutual fire insurance company perennial, the wiping of its funds, which in the case of a stock company closes its history, in a mutual company furnishes a fund to reinstate it.

The four dominant factors which contribute to the success of Mutual Underwriting in Massachusetts are:

First: The formation of the Massachusetts Mutual Fire Insurance Union.

In 1879 the managers of two or three insurance companies conceived the idea of forming an organization which should bring together all mutual companies writing dwelling house and mercantile risks for the purpose, as stated in the preamble, "of considering all matter affecting mutual companies and adopting such measures as would work for the benefit of that system of insurance—for social and fraternal purpose, to the end that peace, harmony, and good-fellowship may hereafter prevail."

Successive meetings proved so profitable that it was only a few years before all the prominent mutuals (except the mill mutuals who had an organization of their own) were enrolled as members, taking part in its work and deliberations. Rates were made, agreements entered into, and a more systematic method of doing business adopted, which has universally commended itself to the executive officers and policy holders. This was called the "Massachusetts Mutual Fire Insurance Union."

At first quarterly meetings only were held. Later it was found advantageous to meet weekly.

Committees on luminants, rates, inspections, special conference, towns, and fire protection were appointed. Books of mutual rates and instructions with special slips of changes maintained and concerted efforts toward securing wise and intelligent legislative action arranged for, with recommendations unifying to a great extent rules, permits, and practices throughout the field. In fact this state organization of Massachusetts mutuals has been singularly advantageous and serviceable, as will be seen by the growth of the business of the companies forming the union in comparative figures for the twenty-three years of existence to this year prepared by the secretary as follows:

	1879	1904
At risk .....	\$181,029,381	\$451,486,355
Assets .....	4,531,863	7,545,838
Liabilities (re-insurance fund) .....	2,143,053	3,658,563
Income .....	1,257,167	2,358,177
Premiums received annually about ..	1,014,126	2,008,795
Dividends paid .....	468,156	867,944
Losses paid .....	381,885	639,209

The making of rates, based upon careful classification, the combining of experience from field work, the noting and advising protection, water supply, and increased fire-fighting facilities of towns under a collective management advanced the interests

of the companies. Each company being loyal to the basis of rate gave stability to prices for insurance and won the respect of the insuring public. The same forms, privileges, permits, and endorsements gave also opportunity for large insurers to place heavy, current lines, with practically one insurer to deal with, the whole union taking the burden but sharing the responsibility by separate policies, the negotiation of the line and settlement of loss being thus brought to a minimum.

Each year has noted more excellence and more thoughtfulness in the service of the mutual union to the various companies.

#### Second: The Dividend Record.

The excellent, steady dividend payments which have been maintained have been a great source of benefit to mutual insurance.

The Massachusetts mutuals, outside of the mill mutuals, pay what is sometimes styled a set or stated dividend, or what is, in fact, a return of part of the premium. That is, instead of changing the scale of dividends each month according to the loss and income, they establish and pay a dividend which their experience has shown they will, on an average loss ratio, be able to pay year in and year out, and so continue for a series of years. The standard mutual dividend, as it exists to-day, is 20 per cent of the premium on one-year policies, 40 per cent three year and 60 per cent five year policies; and this has been the rule for years, so new insurers know practically what the net cost will be, and can compare their chances to insure in the market and decide which to buy, whether a stock or mutual policy.

This has worked excellently, and while a specially heavy drain of losses may temporarily compel a reduction, generally speaking the dividends are very stable.

A differential rate is made over stock companies' tariff by agreement with the New England Insurance Exchange to act in harmony with them, thus avoiding all unnecessary friction, of 20 per cent on three year terms and 30 per cent on five year terms, so far as rated risks are concerned, which helps out the dividend account just so much.

Most of the business in Massachusetts mutuals is brought to them by agents and brokers on a 15 per cent commission basis, and in New England this has become so generally the practice that any other method would seem to be suicidal. The Massachusetts state legislature makes \$10 the license fee for brokers, and declares that all veterans of the civil war can have a broker's license free, and it looks as though the Cuban war

veterans would have the same chance. This makes it easy for numbers to go into the insurance field as solicitors, and their constant hunt for risks heads off insurers who would otherwise quite likely prefer to deal directly over the counter with some official of the company.

Third: The Permanent Fund Feature.

Another feature of Massachusetts mutuals which has been of unquestionable service in their growth is the permanent-fund so-called, established by act of legislature. This act corrected two important elements of weakness in mutuals: first, it provided a chance of a strong financial basis, meeting the opposition to mutuals on the ground that they were financially weak as compared with stock companies with large capital; secondly, it did away with the danger which menaced the companies—that policy holders could petition court for the dispersion of any undivided surplus which happened to occur over the re-insurance fund and so practically close doors.

The legislature declared that the surpluses or net assets held by the Massachusetts mutuals as of 1890 should be held by them as a permanent fund and that thereafter 20 per cent of the net profits of each year could be added to the permanent fund until the aggregate amounted to 2 per cent of the total amount at risk. For instance, if a company was carrying \$40,000,000 at risk, they could accumulate under this privilege of law and hold \$800,000 as a permanent fund. The balance over and above the 20 per cent was to be divided in extra dividends in five year periods. This latter clause, however, was amended, so instead of 20 per cent, such amount as the directors deem fit may be added until said limit is reached.

This permanent fund can be used for the payment of losses and expenses when the funds of the company are not sufficient, so that the permanent fund is a strong tower of security to the policy holder.

The permanent funds of the Massachusetts mutuals run from less than one hundred thousand dollars to nearly half a million. No policy holder has expressed other than satisfaction that thus a certain moiety of his premium has added strength to the company against his own or future policy holder's needs.

Fourth: The Standard Form of Policy.

The standard form of policy which was adopted by the Massachusetts legislature to be used uniformly by both stock and mutual companies some twenty-five years ago has been an excellent basis for an insurance contract. A mutual officer, one of the present members of the mutual union, with a director of the same company, each men of broad and long continued ex-

perience were in the main apparently responsible for its excellent conditions and for its final adoption—its fairness toward policy holders, its arbitration clause which has obviated law-suits, its protection of mortgages has contributed very largely to the harmony, satisfaction, and stability of the conduct of the business. Through over twenty years of struggle, often under trying and exasperating conditions, although occasionally assailed by some legislators, the good sense and admirable working of the contract have permitted hardly a change since its adoption.

#### Fifth: The Outlook.

These four elements therefore account largely for the success of the mutual principle in Massachusetts, always coupled with the effort to keep heart and brain active for the best service of the policy holder. The future of the business is unknown, save as the hundred past years make its own prophecy. We may, however, say that mutual men most foster correct underwriting principles and encourage such inventive skill applicable to insurance methods as shall be beneficial to the fraternity. We are in a progressive age, the age which finds the ultimate at present in the Marconi's system of wireless telegraphy, the practical realization of a dream of years agone.

No practical science in this day remains at a deadlock, and it will require the bestir of brains in the insurance field to keep our chosen profession where it belongs as the handmaid of commercial activity, not in the rear-guard, but in the vanguard, the front rank of the foremost column. John Graham, said that only three things were required of the successful solicitor for a continuous business: first, orders; second, more orders; third, more and larger orders. But three things seem to be required to keep the mutual system to the front: first, excellent service to policy holders; second, more excellent service; third, most excellent service. This is the high standard at which the Massachusetts mutual men are aiming and this principle wisely advocated and zealously adhered to will not only continue the mutuals in historical pre-eminence, but in the truest sense, still on the summit of the insurance heights.

### MICHIGAN.

This state has 97 Mutuals, of these seven appear to do a state business, the rest being local. Three of the state companies take only tornado and wind storm risks. One is a class Mutual, insuring mill property. The total at risk December 31, 1903 was \$388,196,182. This was an increase of over twenty per cent on the previous year. The assessments were low and

seventeen companies made no assessment during the year. The net increase in members was 12,499. These are gratifying figures.

The following extract from a letter by a leading mutual insurance man gives a good idea of the situation.

"You would be surprised to visit out state and hear the different views. Several efforts have been made for uniform policy. To attempt this would raise war. Everyone thinks his method best, and from the uniform success of all companies I would not attempt to say which is best. Personally I regard the best condition of things as existing where two or more companies cover the same territory with principal offices in adjoining counties. It creates rivalry to excel, is profitable in experience and in case of large properties and large risks, joint insurance helps both companies in case of fire."

Meddling in this case would only be productive of evil.

In Michigan, the old New England system of township tax collectors is used and some companies employ these collectors to gather in the assessments. The plan is said to work very well. It is certainly very economical as these collectors take side lines at very low rates.

#### MINNESOTA.

Minnesota is one of the banner states in Mutual Insurance. At the close of the year 1903 there were in business in Minnesota Mutuals as follows:

141 Township Mutuals, total risks.....	\$163,113,327
10 Mutual Fire Asso. (state) .....	16,624,358
13 Hail and Cyclone, total hail risks .....	8,364,942
Total Cyclone risks .....	9,276,729
	_____
Total .....	197,379,356
4 Joint Stock, total risks .....	41,750,436

#### SUPT. DEARTH'S ADDRESS.

The history of Mutual Insurance in Minnesota is given in the admirable address of State Commissioner Dearth before the National Association of Co-operative Mutual Insurance Companies at St. Paul, Minn., March 4, 1902, from which the following extracts are taken.

Speaking of Farm Mutuals, he says:

After quoting the dismal predictions of the Commissioner alluded to, Mr. Dearth goes on to say that they represented the general sentiment of the day and were interesting in view of

the wonderful success which all of the companies, organized in the State of Minnesota since the enactment of the law in 1875, have enjoyed. With but one or two exceptions not a single farmer's township mutual, out of a total of 130 odd which have been incorporated, have retired from the field, and the one or two exceptions did not fail on account of heavy losses, their charters having been surrendered before any business was transacted.

The records of the Insurance Department indicate that during the entire period of twenty-five years, or, in other words, since 1876, that these companies have been operating in Minnesota, the average premium rate per \$100 of insurance has amounted to the small sum of 17 cents. Of this amount 13 cents covered all losses incurred, while 4 cents only, on each \$100 of insurance, represented the entire expense of management. It thus appears that it has only cost the members or policy holders of these companies about one fifth of the average amount that would have been paid to the regular old line stock companies, or a saving, in round numbers, during the year 1901, of \$1,069,000. The farmers of this State have, therefore, through these local township mutual insurance companies, since the enactment of the law in 1875, saved in the way of insurance premiums a gross sum of not less than twelve millions of dollars, and during each year in the future there will be an average saving of over one million dollars.

In his report for the year 1903 he says of the Township Mutuals: "I have no hesitancy in stating, and without fear of contradiction, that no other class of business, whether that of insurance of any other line, is conducted so eminently successful at such a very small cost, and further more, if the policy holders of the various other classes of insurance companies were so well satisfied with the indemnity or protection enjoyed under their policy contracts as is evidently true of the Township Mutual membership, there would appear to be but very little reason for fault finding on the part of any one."

The insurance laws of Minnesota are issued in convenient form. They are well indexed. They also contain the full text of the Supreme Court, opinions construing the laws and a digest of opinions in insurance cases, both State and Federal.

Minnesota makes provision for several classes of Mutuals, State Mutuals, Creamery and Cheese factory Mutuals, Mutual Hardware Dealers Insurance Companies, Publishers Association Mutuals, Mutual Dwelling House Insurance Companies and hail, tornado, plate glass, etc., and the town insurance companies and Farmers' Mutuals.

## FROM SUPT. O'BRIEN.

State Superintendent Thomas D. O'Brien of Minnesota kindly furnishes the following:

I do not intend to discuss the relative merits of the stock or mutual plan with reference to fire insurance. Each has its advantages and disadvantages, and I prefer at the outset, as this article is to be confined to mutual companies, to have it understood that I am not attempting to express any preference for the mutual over the stock fire insurance company.

The stockholders in a stock fire insurance company first contribute the amount of the capital stock and, secondly, in most of the states, assume a liability to an equal amount in case of necessity and are, therefore, entitled to the profits made by the company. These profits should, of course, be reasonable, but with this limitation they are the absolute property of the stockholders. When such a company issues a policy it is an ordinary business transaction wherein the policy holder is willing to and does pay a definite sum for the protection afforded him, entirely irrespective of the general gains and losses of the company.

A mutual company, however, is organized upon the theory of mutual co-operation and generally that the policy holders become underwriters pro rata for the risks taken by the company, and if, as a result of the business transacted, a profit is declared, it is the property of the policy holders and should be returned to them pro rata.

If by these means full protection is secured, as well as a cheaper rate, the result must be satisfactory to the policy holders, but these two conditions bear no proportion in importance to each other, complete protection being the first and important consideration to be taken into account, and no economy in premium should be considered unless the protection is complete.

My experience has convinced me that where the policy holders in a mutual fire insurance company are all engaged in a particular line of business, or belong to a particular class of the community, and where they have occasion, because of their common calling, to come together at stated intervals for the purpose of mutual advancement, that a fire insurance company owned and controlled by them, officered by some of their members who do not depend upon such offices for a livelihood, affords complete protection through the mutual underwriting of the members or, as we call it, the contingent liability of the policy holders, and at the same time the insurance can be furnished for comparatively small premiums; and I should certainly favor an extension by the laws of this State of such a system to those

engaged in various lines of business.

The mutual company which is organized by a few individuals and exclusively managed by them, and regarded more or less as a proprietary company, is in a somewhat different position. The policy holders do not have the same opportunity for becoming acquainted with each other, nor do they take the same interest in the management of the company. They usually regard the management as the company and they, themselves, as outsiders dealing with the company. Where these policy holders pay what is represented to them as a full premium, they consider they have fully performed their part of the contract, and when called upon to meet an assessment, it generally marks the extinction of the company. I realize that this is not the case where what is known as a full mutual premium is not collected in advance, and where all the payments are made under assessments levied by the company, as is the practice in some companies. My judgment is that mutual companies when operated upon sound principles are of great benefit, not only to the policy holders but to the public at large, and undoubtedly help to keep the rates within reasonable limits, but I am just as strongly of the opinion that they are only beneficial when they can offer absolute security to the policy holder. I believe, therefore, that the class of mutuals which I have described as those organized and managed exclusively by a few individuals and engaged in a general fire insurance business, should at all times carry their reinsurance reserve in available cash assets, and that the contingent liability of the policy holders should not be considered a cash asset or an asset to be resorted to except in the most extreme cases.

In order that such mutual companies might be able to do this, I believe the law should permit the sale by the company of some form of certificates of indebtedness to an amount equal to its reinsurance reserve. The law and the certificates themselves should provide that the company should be only liable upon such certificates after all of its other obligations had been extinguished. They should further provide the rate of interest which might be paid upon such certificates and, further, that where a company did accumulate and maintain a reserve of this character, that it might waive the contingent liability of its policy holders, thus enabling the company to compete on equal terms with stock companies in which the policy holders are not contingently liable.

#### MISSOURI.

Mutual Insurance is making good progress in Missouri. Accurate statistics are unattainable as the Farm Mutuals do not

make reports. There is a partial list of these in the report of the State Agricultural Society for the year 1900, sent by Mr. Shiels, which, however, includes only the business of 1899. This list includes 81 companies their total risks foot up \$56,912,770. Later estimates put the number at one hundred, the average membership at a thousand, and the total risks at a hundred millions of dollars. Statistics of the growth of a few companies have been obtained and they show that the estimate given above is too low rather than too high. These companies are all prosperous, in fact, it is the general testimony from Missouri, as from every other state, that Farm Mutuals managed by farmers all do well. It is stated that no Mutuals of any kind have failed in Missouri for several years.

There are also nine State Mutuals, seven of these are in St. Louis and are doing a large and satisfactory business. There are also ten Town Mutuals and three or four Cyclone and Wind-storm Companies, making in all something over one hundred and twenty companies with risk amounting to over two hundred millions of dollars. The following by Mr. J. C. McManima of Springfield, describes the various plans of organization:

"In Missouri we have three distinct systems of Mutual fire insurance, operated under three distinct laws, and these laws are very nearly models in their respective fields. The first law to be considered is the one governing what are known as 'state' or 'six year' companies, of which there are a number that have been in successful operation for a good many years, and possess to a high degree the confidence of the insuring public. This law provides that such companies may be organized with a guaranty fund of not less than \$50,000 in cash or approved securities, which must be assigned to and deposited with the superintendent of insurance of the state; or the company may be organized without the guaranty fund with not less than two hundred persons making bona fide applications for insurance, the premiums on which shall amount to not less than \$100,000 of which sum at least 30 per cent shall be paid in cash and until notes of solvent parties, founded on actual and bona fide applications for insurance, shall have been received for the remainder. No premium note may be for more than \$500.00, and such risks shall be for not less than six years. In case of a company being organized with a guaranty fund, it is provided that such sum shall be contributed by not less than ten persons, and no part of it can be withdrawn until the company holds at least two hundred thousand dollars in premium notes. This law hedges the company about as to fully protect the public and is elaborate and carefully worded. No trouble

has been experienced with companies operating under this law, and one company is now operating under it with a guaranty fund of \$150,000. These state mutuals are under the operation of the general insurance laws of the state.

"The town mutuals may do business in town or country and in all parts of the state. They are not subject to the general insurance laws of the state, nor to the valued policy law, but must make annual reports and are subject to examination by the insurance department of the state. Like the state companies, they may do a fire, lightning and windstorm business. These companies are required to set aside a reserve fund of not less than two nor more than ten per cent of the gross cash premium receipts as a surplus fund, and that cannot be used for any purpose except payment of losses. These companies may be authorized to commence business when bona fide contracts of insurance to aggregate \$1,000 in premiums have been received, and I may add here that this is the only weak spot in the law, though this weakness is offset by other provisions and safeguards. A provision is also made that a town mutual may deposit a guaranty fund with the state insurance department for the protection of its policy holders, and one company has strengthened its position by making such a deposit.

"Under the present Farm or "County Mutual" law, such companies are restricted to a single county, and are exempt from the general insurance laws of the state, but there were a few that were organized under an old law that are authorized to do business in more than one county, and in such cases the counties are designated in the charter, and I know of no case in which a farm mutual has done business in more than four counties. There are also a few companies that are not chartered, but are operated as a partnership. In Missouri we have farm or county Mutuals that have been in business more than thirty years, and there has never been a failure, though we now have about one hundred companies, carrying nearly one hundred million dollars of insurance. One company doing business in a single county reports a membership of 4,073 with \$2,789,222.78 insurance in force. This company was organized in 1875.

"Co-operation in the various counties has been so successful, that our mutual insurance men have been getting closer together, from all over the state. We now have in Missouri a state association of farm mutual insurance companies, with a full set of officers, and most of the county mutuals are members of the association. We have inaugurated a regular system of reports that are made by the various county mutuals to the secretary of the state association, the reports being almost as complete

as those made by the stock companies to the insurance department of the state. We have our annual conventions when we get together for the purpose of spending two or three days in comparing notes, discussing plans and methods and getting acquainted with each other. These conventions are both valuable and pleasant, though usually full of business from start to finish. In our state association we also have a permanent legislative committee, and during a legislative session this committee keeps an eye on insurance legislation, and if a dangerous measure comes up, the word is passed along the line and notice goes out that it would displease 100,000 farmers to have the measure become a law, and hundreds of these farmers write to or see their legislative representative and the result is that the dangerous bill is killed, even when it is backed by all the wealth and power of the combine of the joint stock companies. When it comes to legislation, such an organization as we have in Missouri is sure to control the situation, and its position is almost invulnerable. With such an organization as to farm insurance, is it any wonder that the stock companies have virtually abandoned the field? In addition to these points it must never be forgotten that the 100,000 farmers of Missouri who are now protected by their own mutuals, are saving about half a million dollars a year at the lowest estimate, and this is certainly worth figuring on. In addition to the direct saving through mutual insurance companies, there is a large indirect saving by forcing the stock companies to reduce rates all along the line."

No state has been exempt from the raids of fraudulent organizers. Mr. A. Shiel of Burlington Junction gives us a brief history of the experience of Missouri as follows:

"The law permitting the organization and incorporation of the Mutuals was passed in the year 1889. Then again there was another law passed permitting the incorporation of town mutuals at a more recent date; this I think was six or seven years ago. These companies were manipulated by the emissaries of Old Line Companies apparently, for out of about fifty-six only one or two remain in business. Their method was to take the rating of the old line company, collect one-half cash, give time on the balance, then proceed to collect the balance by assessment soon thereafter, then go out of business; some of them made two assessments or more, but they were short lived, they having the name of Mutual injured the county Mutuals of which we have 96 in the state, none of which have failed. There was a town Mutual organized at Marysville. It went under, leaving an indebtedness. Another was organized at Rockport. Another of the town Mutuals was organized at

Stanberry, Mo. Both failed. I hardly know how you can get the vital statistics of these miserable concerns. I speak rather bitterly of them because, owing to their failures, the finger of scorn was pointed at all the Mutuals, and caused numberless cancellations in all County Mutuals. The ignorance and prejudice told against us, but we have outlived the harm they were capable of doing, and maybe the experience is a benefit in the end."

Mr. Jesse D. Mohler of Warrensburg, says that in the history of Farmers Mutuals in Missouri, not one has ever retired without "first paying all its indebtedness. Town Mutuals have done so and some farm Mutuals have been absorbed by stock companies, but no straight Farm Mutual has ever gone back on the people."

Mr. E. S. Osgood, of Mendon, estimates the annual saving to the people of Missouri at a million of dollars.

Speaking of the Agricultural Reports, Mr. A. Shiel, of Burlington Junction, says:

"This is voluntary as the law does not require us to do so. But I believe it would be better if we had state supervision and had to certify. It would have a tendency to make Secretaries more careful in their reports. I find many who think differently. I think about half of the County Mutuals are reported."

Recently there is an apparent tendency to organize more companies under town Mutual law, and there is unquestionably a good field for them. The success of the Farmers in co-operation as to insurance has caused the people of the towns to do a great deal of thinking and the result will be more successful town Mutuals. The people have also learned some valuable lessons from former mistakes of Town Mutuals and these mistakes will never be repeated. On the whole, Missouri may be said to be in fine shape as to Mutual Insurance Laws, Mutual Insurance Operators, and Mutual Insurance Sentiment.

#### NEBRASKA.

Nebraska is one of the States in which Mutual Insurance has made good progress. The State has three general Mutuals doing a good business, with risks of ..... \$ 15,186,369 Eight city and village Mutuals with risks of ..... 12,286,856 Sixty-five Farmers' Mutual Fire and Tornado com-

panies with risks of ..... 113,322,192

Total ..... \$140,795,417

There are four miscellaneous Mutuals with risks of ..... 986,365

Six Hail companies with risks of ..... 1,992,141

Eighty-six companies, Grand Total ..... \$143,773,923

The early experience of Nebraska witnessed not a few attempts at fraud but the State soon passed safeguards against these, and of late the Mutuals have made continual and uninterrupted progress. The State has been fortunate in possessing a large number of men of great abilities, and earnest devotion to the cause of Mutual Insurance. Their influence has been felt not only at home, but in other States, and they are entitled to credit for much good work especially in the new States.

#### KIND OF COMPANIES.

First. What is known as the 1873 law companies. This is a joint law providing for the organization of stock companies and of mutuals. Under the mutual part of it a company may be organized by having insurance premium contracts for \$25,000.00 on which \$5,000.00 must have been paid in cash and \$20,000.00 in notes, which must remain up as security for losses until the company has accumulated resources equal to that required of a stock company. This class of companies can limit the liability of their policy holders. In March 2, 1905, an amendment was made to section 17 of that act providing for the establishing of a guaranty fund for the writing of premiums for cash and stipulated terms.

Second. The law of 1891 under which the exclusively farm mutual companies of Nebraska are incorporated both those doing a state business and county.

To organize required the signature of 20 residents of the State who own property of not less than \$20,000.00 which they desire to have insured. Regular articles of incorporation must be adopted and filed. Farm companies are very successful, one carrying over \$50,000,000.00 of risks.

Third. What is known as the law of 1897 provides for the organization of city and village mutuals. Not less than 100 persons owning not less than \$100,000.00 of property which they desire to have insured may incorporate and proceed to do business. This law took effect April 6, 1897. Companies organized under this can only insure property in cities and villages and business properties outside. Not exceeding 9 directors may be elected. They shall embody the name Mutual in their name, and may issue policies in the regular form. The act provides for a reserve fund of not less than ten per cent of the amount collected in cash at the time of issuing the policy. Several companies are organized under this act and are doing a successful city business. There is provision also for unincorporated Mutuals.

That is, nothing in the various acts shall be so construed as to prevent any number of persons from making mutual obli-

gations and giving the valid obligations to each other for their own insurance. Such associations or companies shall receive no premiums, make no dividends, or pay in any case more than \$2.00 per day to any of their officers for compensation. And they can only collect assessments for losses and expenses as provided.

I do not think there are any companies operating under that act, not more than one or two small ones at least.

Fourth. In 1903 there was also passed a law for the mutual insuring of domestic animals and a company can be organized by not less than 100 persons residing in not less than 100 different counties who collectively shall own domestic animals, except swine, of not less than \$50,000.00 in value. They may be insured against loss by fire, lightning, tornado, disease or accident. If any company has been organized under it much has not been heard concerning it.

Fifth. There is a statute providing for hail insurance which took effect April 3, 1897, and under which not less than 100 persons residing in this state who collectively own not less than 5,000 acres of grain which they desire to have insured may be organized for the purpose of mutually insuring their growing crops from loss or damage by hail. Such incorporators must reside in not less than 10 different counties. This law was amended in 1905 with many good conditions and provisions.

Sixth. There are also statutes providing for the organization of mutual plate glass companies under which any number of persons, not less than 15, residing in this state, who are the owners of plate glass windows, in mercantile or other buildings, which they desire to have insured against accident or other breakage, may organize.

Some work is done by companies under that statute.

Seventh. There is a statute in Nebraska providing for the cancellation of policies.

#### **NEW HAMPSHIRE.**

New Hampshire has always been an excellent state for Mutual insurance. In 1885 in consequence of the passage of the Valued Policy Law, and the departure of the foreign companies, there were quite a number of cash mutuals incorporated to fill the breach. On the return of the companies all of those gradually dropped out so that now there are but two in existence—the Manufacturers & Merchants, and the Concord Mutual, both located in Concord, N. H.

	1890	1904
At risk .....	\$4,892,201	\$6,268,862
Assets .....	97,401	188,091
Surplus .....	47,511	134,102

The number of assessment mutuals which includes twenty town mutuals, two county and the Grange, in 1890 was 23. The town mutuals confine their business to their own towns. The two counties' to their respective counties, and that of the Grange extends all over the State but is confined to members of the Order. The amount in force of these 23 on December 31st, 1890, was \$9,254,529. Since that time, two of the town mutuals dropped out, leaving the number December 31st, 1904, including the Grange and County Mutuals, 21.

The amount in force of these 21 on December 31st, 1904, was \$16,007,810.

The two town mutuals that retired did not fail. They wound up their business and paid their claims in full.

The following laws apply to the Mutuals. Chapter 168, sec. 1. "Members of Mutual insurance companies shall not be individually liable to pay any debts of their respective companies beyond their ability to assessments for losses occurring therein, not to such assessments beyond the amount of their deposit notes."

Sections 2 and 5 apply to cash mutuals:

Sec. 2. "Any such company organized under the laws of this state which charges a full cash premium, may limit the liability of policy holders to assessment by a stipulation in the policy, which shall have the same effect as a deposit note signed by the assured."

Sec. 5. "No such company which charges a full cash premium shall make a dividend to its policy holders that will reduce its cash assets below seventy per cent of the gross premiums received upon all risks then in force."

The standard form of policy is used and all insurance companies are held to a strict account.

There are several Massachusetts Mutual Insurance Companies which do business in this state, five Massachusetts and one from Rhode Island. During 1904 these companies wrote \$3,750,804.

Premiums received .....	\$52,629.44
Losses .....	22,612.08

showing a loss ratio for these companies of 42.9 per cent.

#### NEW JERSEY.

New Jersey has been described as being situated between two great cities with none of her own. The competition for

business between is exceedingly keen. Her eleven stock companies have to fight for their lives. The state has twenty-two mutuals which are making fair progress. They show a total of risk of \$57,062,270, with contingent assets \$2,240,409, and cash assets of \$401,911, a fair increase over previous years.

Peculiarly liable to invasion by sharpers from the cities of other states, New Jersey has found it necessary to enforce the criminal laws vigorously. Her statutes protect her citizens against insurance frauds.

The details of the business, mutuals manage as they see fit. But they must be financially sound or they will be closed up.

No statistics of lightning or tornado insurance are given. The local fire mutuals probably care for lightning risks.

#### NEW YORK.

It has been remarked that it is fortunate that New York is a large State or there would not be room for the enormous variety of schemes and theories which exist within its borders. Including one of the great cities of the world, the literary and political sewer of the Union, it is the home of the extremely good and bad in every imaginable line. Insurance furnishes its full share of the contents of this witches' caldron. The joint stock, the Lloyd and the Mutual are all there, and it is said that among these a man can be insured against any imaginable calamity, in any kind of a company he desires. It goes without saying that between the co-operative and joint stock systems there is war to the knife. The Mutuals do not report to the State Superintendent of Insurance but file their statements with the Secretary of State, but nothing is ever done with them by way of making them public.

A letter to the Superintendent of Insurance brought no information.

A letter from a prominent Mutual Insurance man explains the situation exactly. He says:

"I think that the statistics given you by the Superintendent of Insurance are rather misleading, but there may be some excuse for this as I should judge that it refers to an entirely organized under a special law. So far as I know the business of these co-operative companies has been very satisfactory and there has been no failure that I am aware of. There are over one hundred and twenty of these companies in this state which send representatives to the Central Organization of co-operative insurance companies. It is true that we do not report to the Superintendent of Insurance and he has, apparently, a grievance

against us and the Secretary of State don't like to have us report to him, so he is not with us, but we keep right on doing business just the same and saving our patrons thousands upon thousands of dollars every year."

The Patrons of Husbandry, otherwise known as the Grange, have a large number of Mutual Fire Insurance Companies in New York and other States. These insure none but members, are all well managed and save large sums for their members. The following, clipped from the annual report for the Jefferson County Patrons' Fire Relief Association, is a fair example.

Total amount of insurance in force Oct. 1, 1903...\$10,975,463.00  
 Total assessment on policies in force Oct. 1, 1903... 10,975.75

The cost of our insurance as compared with rates of Stock Companies, show a saving in favor of the P. F. R. A. of \$3.75 per \$1,000, a total saving to the members in 1903 of \$41,795.15.

W. H. VARY, Secretary.

#### NORTH DAKOTA.

This state has sixteen county Mutuals, reporting totals at risk (3 estimated) .....\$8,516,623.00

Eight State Mutuals do not report totals at risk, but wrote during 1893 .....\$6,308,382.05

Two Hail Mutuals wrote.....\$1,679,691.00

North Dakota has excellent provisions against spurious companies. If the people would only assist in carrying them out the citizens would be well protected against swindling insurance. It is within the power of any person to cause the arrest of any agent acting without authority or for an unauthorized company.

In 1903 a law was passed requiring any hail companies organized under the laws of any county or state to deposit with the state treasurer the sum of \$25,000 before being authorized to transact business. This had a good effect.

The laws provide for the safe management of insurance companies. The arrangement and annotation of the laws are very much like those of South Dakota and are in a very convenient form.

#### OHIO.

Ohio has 22 Mutuals with risks of.....\$338,883,223.00  
 114 assessment fire and miscellaneous companies,

having at risk ..... 202,249,066.00

Total at risk .....\$540,132,309.00

These statistics include class mutuals as well as the ordinary risks. Some new companies have been chartered since the report was issued.

Mutual companies must file bond of \$10,000, must have not less than \$500,000 on insurance in not less than 300 shares. The premium for one year amounting to not less than \$10,000 must have been paid in cash and each subscriber must assume a liability, not less than three nor more than five annual premiums. Each subsequent applicant for insurance must agree to the same liability. Such companies may collect an annual premium in advance.

Fire insurance companies may insure against lightning, explosions and tornado.

Sec. 3691 reads: The cellar and foundation walls shall not be included or considered a part of the building or structure in settling losses, anything in the application or policy to the contrary notwithstanding.

The Ohio Laws have been revised and some companies are working under the old laws and some under the new. There is a rigid system of inspection and companies must keep within safe limits. The Mutuals come under this Statute.

Ohio has a good fire marshal law and the results have been very satisfactory.

#### OKLAHOMA.

Mutual Insurance affairs in Oklahoma are in rather a chaotic condition. The laws are not satisfactory, and efforts to secure more favorable legislation have thus far failed.

There are three Mutuals in Oklahoma. One is an exclusive hail company, one issues hail and fire policies, the third does business in hail, fire and tornado lines.

One company assesses to meet losses and settles in full every year, the others carry over a surplus to protect policy holders. All three seem to be in good shape.

They have been fortunate in being able to carry hail insurance for several years at less than three per cent.

The companies are increasing their business very rapidly, the total at risk being now over ten millions of dollars. This is a very good start and with better legislation the Oklahoma Mutuals may expect to do most of the fire, hail and tornado business of the state.

A recent decision forbids farm mutuals from insuring any property inside of corporate limits.

#### OREGON.

A brief study of the Insurance Commissioner's report for 1904 (giving the figures for 1903 business) discloses some interesting facts, which should be encouraging to the friends of the mutual insurance cause.

In 1899 the stock companies wrote \$64,155,205.49, while in 1903 they wrote \$95,531,484.84, or an increase of about 49 per cent.

In 1899 the mutual companies wrote \$2,761,453.00, while in 1903 they wrote \$8,083,072.00, or an increase of about 192 per cent.

On Dec. 31, 1903, the mutual companies had in force \$18,513,893.00 insurance, divided among the five companies as follows:

Oregon Fire Relief Ass'n. (of McMinnville).....	\$15,692,707.00
Farmers Fire Relief Ass'n. (of Butteville).....	1,425,990.00
Hop Growers Fire Relief Association.....	926,839.00
German Fire Insurance Company.....	385,804.00
Farmers Fire Relief Ass'n. (of Sublimity).....	82,553.00

Total .....\$18,513,893.00

The commissioners report does not give the amount of insurance in force in stock companies on Dec. 31, 1903, but estimating the insurance in force at 25 per cent more than the amount written, (In the state of New York the amount of insurance in force at the close of 1903, was a little less than 18 per cent more than the amount written during the year) would give the stock companies about \$119,500,000.00 as compared with \$18,500,000.00, in round numbers, in the mutuals. This will then give us this interesting fact; in a state where mutual fire insurance was practically unknown ten years ago, mutual companies now carrying about 13½ per cent or more than ¼ of its entire fire insurance business.

There is no uniformity of rates or policy forms among the mutual companies in the state.

The O. F. R. A. the largest of the mutuals in the state, bases its rates upon the tariff rates of the stock companies, and its policy forms, aside from the provisions necessarily embodied in a mutual contract, are very similar to the New York standard form of policy.

There is no hail or tornado insurance in the state, and losses and damages from lightning are very rare occurrences, the O. F. R. A. in its ten years experience having had but two slight damages resulting from lightning.

The O. F. R. A. only insures against loss or damage by fire; and it insures dwellings, barns, boarding and lodging houses, brick buildings, warehouses, hop houses and hop dryers and growing grain.

Private dwellings and barns are written, either for 5 years on the assessable plan, or on the paid up plan for 3 years. Other classes of risks are written for one year or less on the

paid up plan. Hops and growing grain are usually written for from 30 to 60 days. Under the paid up plan the assessments are collected in advance instead of being called during the term of the certificate.

There is one company, The Lower Columbia Fire Relief Association which is operated in connection with the State Grange and which does a fire insurance business among members of the Grange only, and which on account of the provisions of Sec. 3748 of the insurance laws is not required to make a report of its business to the insurance commissioner. In consequence of this no statistics or figures of this company's business are available.

The Oregon Fire Relief Association, of McMinnville, which was organized Sept. 10, 1894, is the only mutual fire insurance company doing a general business throughout the state.

The Hopgrowers Fire Relief Association of Butteville was organized in 1890, and the Farmers Fire Relief Association of Butteville, under the same management, was organized in 1896. They confine their business to the counties constituting the Willamette valley.

The six stock companies organized under the laws of this state have all retired from business, so that there are now no Oregon stock fire insurance companies.

One mutual retired from business in 1902, a considerable part of its business having been rewritten in the O. F. R. A.

There are two distinct climates in Oregon; the great section in Eastern Oregon, east of the Cascade Mountains is very dry and hot during the summer months and there is no moss to contend with, but the settlements, towns and cities are, owing to the strong prevailing winds, liable to general conflagrations. In Western Oregon, west of the Cascade Mountains, the climate is influenced by the ocean currents, the mean temperature being about 60 degrees with much more rain, and roofs that are not painted become covered with moss, which during the dry season of the year becomes a menace to the buildings and the records show a large per cent of losses caused from sparks on the roof igniting the moss.

The conditions in Oregon are very different from those in the central portion of the United States. In the wheat growing portion there is no rain from the time the grain begins to ripen until fall, nor do hail storms or cyclones occur. Hence the wheat can be left standing till the farmer is ready to harvest it. During this period the country becomes exceedingly dry and sweeping fires are frequent. It is these which the farmers insure against while hail and tornado insurance are unknown. Light-

ning is very rare. On the coast during the wet season the moss grows everywhere. This is the green moss occasionally found in single patches in damp shady places in the interior of the country; it covers the roof and in the summer becomes very dry. In these respects and in several others insurance conditions in Oregon and Washington differ from those in other states.

The O. F. R. A. ratio of losses to stock company annual premiums for 1903 was 22.8 per cent.

The O. F. R. A. paid to its members in losses from its organization up to Dec. 31, 1903 \$151,287.35.

The laws of the state relating to mutual fire insurance companies are very brief.

different line of insurance from ours, or the one I am interested in, and that is a co-operative insurance company which was

#### PENNSYLVANIA.

Pennsylvania boasts of the oldest Mutual Fire Insurance Company in the United States and one of the oldest in the World. An account of this is given elsewhere.

The state has at last report, 236 Mutuals with total assets \$795,774,348. There are also some live stock Mutuals whose total risks are not given.

The Mutuals of Pennsylvania are generally old and well established institutions. Some are working under old charters and some have been organized but lately. All however, are under the strictest supervision and are safely conducted.

The New York Standard policy has been adopted and there are also standard two-third, three-fourths, co-insurance and lightning forms to attach to policies. Nearly all the laws have been construed by the courts and insurance practice is well settled.

All the Mutuals have abundant assets and all furnish insurance at very low cost. There is a great diversity of methods.

Mr. James Miller, the veteran Secretary of the Lykens Valley Mutual Fire Insurance Company, gives some very interesting information. His company has been in business over fifty years. It has made only nineteen assessments during this period. The total average of cost to the assured was less than eighteen cents a year.

Concerning the premiums and assessments, he says:

"In the early days of the company, losses were not so numerous, and the Company had a habit of borrowing money, until the load became too heavy, and then the Board laid an assessment. But, they did not provide for future losses, consuming all premiums paid in, and in sight, and the result was

that the next year found them short of funds, and an assessment had to come again.

I hold that the premiums coming in this year on policies running 3 to 5 years, should be considered as reserved to pay losses on those policies and not use them to pay losses on policies issued 1, 2 or more years ago. "Let the dead past, bury their dead," or in other words, let the past policies pay their own losses; as future policies theirs.

If Mutual companies would keep a reserve fund, say of \$500 for every \$500,000 insurance on the books, they would be as strong to meet losses as stock companies, but if money is drawn from the reserve fund, it should be replaced out of the next assessment; or if present premiums are used to pay losses on past policies (issued in the past), this money should be replaced out of the next assessment.

If a man takes a policy to day and pays his premium thereon, what right has the company to pay out that premium on losses of a policy issued four years ago, unless it is restored again out of the next assessment."

There has been some trouble from over-insurance and consequent incendiariism. A State Fire Marshal Law is needed.

The plan of offering rewards for the conviction of incendiaries is in use in Pennsylvania. It has prevented the crime to a considerable extent.

The following resolution was passed by the Board of Directors of Mr. Miller's Company, June 5, 1897, and ordered to be printed with the Annual Reports:

"Resolved. That the Executive Committee be and hereby is authorized to offer, and the Board of Directors agree to pay a reward for the detection and conviction of any incendiary or incendiaries for setting fire to any property insured in this company, said reward to range from ten to two hundred dollars, at the discretion of the said committee, and to be based upon the amount insured on the property so fired."

"The reward for the detection of incendiaries is printed on every Annual Report, and on every assessment notice that goes out from this office, so that every insured person can read it,—since June 5-97. We also attach clauses (see copies) on every policy issued limiting the liability of the company, compelling the assured to carry 75 or 80 per cent of the risk himself. This and the incendiary clause are both good in their way, and because we use both to save the company we cannot tell which is most effective; but I believe both to be a good thing to keep insurers as honest as possible. I know there are kickers against the  $\frac{3}{4}$  and 80 per cent clauses, and these are the very ones I

do not trust. People will make money out of an insurance company, if they can, and it can not always be prevented even with those clauses on the policies." These clauses are printed in the article on over insurance.

In one case the reward was offered, the man was arrested but the case was lost.

But, it had a good effect in all that country 'round, for no suspicious fires occurred there since, so far as I know. It acts as a scare and in that way does some work. But it will not avail in all cases.

Sometimes I get a man of the neighborhood of the loss to hunt up evidence to use at the trial, and the one who had the loss does not know it; and to the spy I offer \$10 or \$20 if he can find evidence to save the company from paying part or all of the loss, because of over-insurance.

In one such case, the man had offered his property (land included) for \$150 less than he had insured on the house. I produced a witness who held the assured's letter offering him the house for \$300, when he had it insured for \$450. The jury found against the company for \$300, and the interest from the time the loss should have been paid. It did not cost me \$150 to run the case through court and therefore I saved the company some money. In other cases I have compromised the loss for less than the insurance."

#### RHODE ISLAND.

In Rhode Island all insurance companies, mutual as well as joint stock, are created only by the General Assembly on petition thereto. All such companies work under the general corporation laws of the state, and the provisions of their charters.

The only special provision relative to Mutuals is Section 16 of Chapter 181, as follows: "Every Mutual Fire Insurance Company organized under the laws of this state may decline to take premium notes in part payment for insurance: Provided, there be inserted in the body of the policy issued, a provision making the assured, his or their executors, administrators or assigns liable to such assessment as may be provided in such policy, and as shall become necessary in order to pay all losses and expenses not exceeding twenty times the amount of the cash premium paid."

Mutuals are under the control of the Commissioner of Insurance and report to him as do the others. There are two joint stock fire insurance companies in this state, one of which, dates back to 1799, and there are two others in liquidation.

The Rhode Island mutuals are divided into two kinds, the so-called Mill Mutuals, fifteen in number and the Dwelling House Mutuals, seven in number, one of the latter, the Providence Mutual, having been organized in 1800. There are also eight Massachusetts Manufacturer's Mutual Fire Insurance Companies and eight of the so called Massachusetts dwelling house mutuals doing business in this state. The Manufacturer's mutuals should be treated under a head by themselves, and you will find a description of these in the article on Massachusetts.

I have for the sake of convenience divided the amount at risk and the assets of the two different kinds of mutuals.

	Dwelling House.	Manufacturer's.
Amount at risk .....	\$14,776,665	\$528,409,241
Cash assets .....	1,440,972	7,197,342

With perhaps the exception of one or two of the dwelling house companies in this state, a flat premium is charged and a dividend paid at expiration of the policy.

The dwelling house mutuals in this state confine themselves in their underwriting to dwellings, private stables, churches, school houses and mercantile buildings; there are, however, two that write on Stocks of Goods; none, however, write on manufacturing property, or so called special hazards.

Both kinds of Mutuals have, however, been very successful.

#### SOUTH DAKOTA.

South Dakota has 19 mutuals, having at risk \$18,168,862.07. The Insurance Laws have been carefully compiled and annotated.

State organizations for Mutual fire, lightning, hail and tornado insurance may be formed by not less than twenty-five persons owning not less than \$50,000 worth of property. County and township organizations require the same number to organize, but only property to the amount of \$25,000. Township organizations are limited to twenty-five townships.

County and township organizations may not insure property outside of their limits, and they are excluded from incorporated cities or villages, except as to land actually used in farming. They may insure detached dwellings, farm buildings, school houses, churches with the contents, and furniture in each case, hay or grain in bin or stack. County Mutuals may insure "Live stock only on the premises, against fire and against lightning anywhere in the County or in the adjoining county." Township organizations may insure live stock only on the premises or running at large.

The state has a valued policy law, and an anti compact law.

**TEXAS.**

Mutual Insurance is making good progress in Texas. Some years ago the State was invaded by a veritable army of insurance frauds and every line was worked energetically and industriously. Many fraudulent companies were organized and the business fell into disrepute. Among the wild cats were quite a number of Mutuals. Their life was short, for laws were soon passed which protected the people from further imposition, and the criminals either fled the country or were punished. Fortunately, most of the frauds were on a small scale.

Mutual insurance is in its infancy in Texas. It is safe to say that it will develop many fold within the next few years.

The Insurance Commissioner of Texas wrote as follows in 1904:

"We had no law in this State regulating and supervising mutual fire insurance companies until September 1, 1903.

"Prior to this time we had a great many irresponsible fake concerns which operated in the State under the name 'mutual' but the only mutuality was among those who got control and management of the concerns, they putting the money in their own pockets, and as soon as they were filled they quietly closed up and went in search of fresh fields.

"Since the taking effect of the mutual law, passed by the 28th Legislature, we have authorized about 15 mutual companies. Seven of these are doing a general business, and seven are strictly local County affairs. One of these companies soon found it unprofitable and has gone into liquidation. Three others, as I understand it, are endeavoring to do a general business over the State, and three more, while licensed to do a general business over the State, confine their operations to their own people—one among the Germans, and another among the Bohemians."

Glen Walker, secretary of The Millers Mutual Fire Insurance Company of Texas, writes from Fort Worth as follows:

"Your letter of the 19th inst. has been received, and I take pleasure in writing you that in Texas there is now no practical law for the incorporation of Mutual Fire Insurance Companies, the present law having been so drawn that while apparently promoting Mutual insurance and safeguarding the insured, it practically makes prohibitive such insurance.

"Seven companies organized before the passage of the law are transacting business, and from their last reports to the Commissioner, it is shown that the receipts for 1904 were approxi-

mately \$120,000, of which \$85,000 is collected by one company, viz: the Millers Mutual.

"It might be added that before the passage of this law the State was covered with some forty or fifty so-called Mutual companies, nearly all of which were Mutual only in name, being wild-catters of the worst type. The requirement to report to the Insurance Commissioner wiped out thirty-five to forty.

"Besides the above referred to Mutuals, there are fourteen County Mutuals organized under still another law. These it is reported collected \$12,000 in 1904, and are said to be doing a small but good business."

#### VERMONT.

Vermont has only three local companies, i. e. the Vermont Mutual, the Union Mutual (both of Montpelier,) and the State Mutual of Rutland, the last one, being quite new and small but on the same general principle and plan. All three companies insure all kinds of insurable property in this state; all do business on the premium note plan. The Vermont Mutual, the largest of the three companies, has had remarkable success as the statistics will show. Its business lies principally in Vermont, writing but occasionally on risks in bordering states. It has a local agent in every town, and is familiar and in touch with each of its risks, and this is one of the causes of the company's great success. Another reason is, the area is so small that the officers of the Company, if need be, can personally visit each locality where losses are frequent or fluctuations in the value of property may demand it.

The ratings of the various classes of hazardous properties were first made on personal judgment and in the course of the Company's experience it has been proven that the original ratings were nearly correct. Village or city residences were rated at 4 per cent, farm risks at 6 per cent, mercantile risks at 25 per cent, the smaller shops and factories at 40 per cent, grist mills, creameries and like hazards at 50 per cent, water-power saw mills and wood working plants at 75 per cent and steam mills and wood working plants at 150 per cent—these give practically the range of rates.

There have been two farm mutuals and six other mutuals organized under the laws of this state, and have transacted business at various times. Both the Farm Mutuals and three of the others have retired, leaving only three Mutual Fire Insurance Companies incorporated under the laws of Vermont.

The Mutual Companies which started in this state and then ceased to do business confined themselves to too small areas, and under the larger growth and business of the Vermont Mutual the smaller companies have been unable to succeed.

	Assets of Vt. Companies.	Surplus.
State .....	\$ 43,839.04	\$ 5,384.67
Vermont .....	243,845.14	171,707.27
Union .....	77,148.18	7,518.84
	<hr/>	<hr/>
	\$364,832.36	\$184,610.78

There are ten mutual companies from Massachusetts and Rhode Island doing business in this state and in 1904, the amount at risk written was \$3,609,899 for which they received in premiums \$67,206.07, paying out in losses \$26,589.59 at a loss ratio of 33.28 per cent.

#### WASHINGTON.

Washington is one of the newer states, but she has a good mutual system.

She has 11 mutuals with \$16,798,693 at risk, and a total of assets of \$756,620.30. This shows a material advance during the year.

The laws of the state are fair.

Any ten or more persons, residents of this state, who may desire to form a company or association for the purpose of mutual protection of the members thereof against loss by fire, may do so.

Mutual Marine and Fire Companies are provided for and also live stock mutuals.

If the Insurance Commissioner of Washington does his duty in making examinations there will be no bankrupt insurance companies in that state. Weak companies will be forced to close up before their losses become so great that they cannot pay them.

Washington has an excellent Fire Marshal Law.

#### THE FACTORY MUTUALS.

F. J. Martin, of Seattle, writes as follows:

"In answer to your inquiry concerning the National Association of Factory Mutual Insurance Companies will state, that this is an association of mutual companies, the association being formed during the early part of 1905 at the solicitation of

D. M. Parry, President of the National Association of Manufacturers and other manufacturers closely allied with that organization.

"The Association has an Inspection Department in charge of S. M. Timberlake, an experienced insurance engineer and located at Indianapolis, Ind. The object of the Association is to insure the better class of equipped manufacturing risks, but yet those that are not quite up to the high standard required by the Senior Factory Mutuals of New England.

"The companies selected for the organization were The Indiana Millers Mutual Fire Insurance Co., Indianapolis, Ind.; The American Manufacturers Mutual Fire Insurance Co., Indianapolis, Ind.; The American Guaranty Fund Mutual Fire Insurance Co., St. Louis, Mo.; The Central Manufacturers Mutual Insurance Co., Van Wert, Ohio; The Western Millers Mutual Fire Insurance Co., Kansas City, Mo., and our own company.

"During 1905 these companies paid their policy holders a dividend of 25 per cent, but on February 1st, 1906, it was increased to 30 per cent."

### WISCONSIN.

No better account of the Mutuals of Wisconsin can be given than the following, taken from the report of Insurance Commissioner Host, for 1904.

The number of companies doing business in this state, and reporting to this department, was as follows:

Mutual town insurance companies .....	199
City and village Mutual companies .....	37
Mutual Church Insurance Companies .....	4
Mutual Hail Insurance Companies .....	7
Retail Lumber Dealers Mutuals .....	1

The following table is an abstract from the reports of these companies showing the amount at risk December 31, 1903:

City and Village Mutuals .....	\$ 32,471,068
Town Mutuals .....	246,902,622
Church Mutuals .....	4,210,152
Lumber Dealers Mutual .....	494,125
Mutual Hail and Cyclone .....	4,081,678
 Total .....	 \$293,159,645

In no form of insurance do we find the old fashioned theory of mutuality so faithfully adhered to, and in no class of

insurance do the members receive more complete and fuller returns for the share of the responsibility which each assumes than they do in a Mutual Fire Insurance Company.

The successful Mutual company must confine itself, either to a certain class of risks, or to a restricted locality, so that the most important factor—moral hazard—may be eliminated.

Forty-four years of experience with local Mutual fire insurance has proven the wisdom of the restrictions and limitations which the law has placed upon these companies.

The limitations as to the character of the risk and exposure, the amount of insurance, and assessment liability of the member, together with the restriction as to territory—eliminating the moral hazard which makes up so large a percentage of the cost of stock companies—have made possible the success of this class of companies.

Kept within the meaning and purpose of Mutuality, and the well tried limitations and restrictions adhered to, with the economy and care which has characterized the management of these companies, there never need be a failure, and the protection afforded will always be the best.

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